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COMMODITY SITUATION AND OUTLOOK

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE CURRENT SITUATION AND OUTLOOK FOR UNITED STATES WHEAT, BARLEY, AND OATS IN DOMESTIC AND FOREIGN ARENAS

MAY 17, 25, AND JUNE 23, 1988

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COMMODITY SITUATION AND OUTLOOK

The Wheat Supply Situation—Reviewing Current Stocks and Production Estimates for the Upcoming Harvest Season

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TUESDAY, MAY 17, 1988

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SR-332, Russell Senate Office Building, Hon. John Melcher (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Melcher, Conrad, Fowler, Daschle, and Bond.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. The subcommittee will come to order.

This morning we're meeting to discuss the wheat situation and outlook, the situation as it exists now on wheat supplies for this year and for next year.

In the 1985 farm bill, as we all know in this room, the emphasis was on fairly heavy production of wheat and other feed grains, with the idea that there be an expansion of exports.

When a farmer in Montana, or any place else in this country, plants wheat, two out of every three bushels that he's going to harvest, must find a home overseas.

If we have a 2.1 or 2.2 billion bushel crop, which has become pretty much the norm for the United States, we're going to consume in this country for domestic use, something like 700 million bushels. So, that's one-third of the crop.

When wheat is very old, sometimes it is a substitute for feed grains. It's fed to cattle or other livestock or perhaps even to poultry.

And we assume that that's happening right now, because wheat prices are quite low. That would, of course, up the consumption here in this country, but normally we're talking about wheat being produced for people not for livestock or poultry.

We've seen some success with the enhancement program over the past several months in reducing the supplies, reducing the surplus. We've got to still have a very hard surplus.

We are wondering, however, what's happening on Public Law 480 or section 416 to any of the programs dealing with donations to needy countries for the dual purpose of meeting their needs and also for the purpose of developing markets for the United States wheat producers.

This morning's hearing, we're hearing from three witnesses from the administration. Next week, Wednesday, we'll have the second hearing. We'll hear from producer groups and also from Peter Myers from the Department.

I am very optimistic on reducing the wheat surplus this year. We're about ready to go into the harvesting of the new crop. I imagine combines will be in the fields in Texas before the end of this month and starting the harvest for the 1988 crop.

But I do believe it is a proper time for us to make a good assessment of where we stand right now as we come into the harvesting of the 1989 crop and determine whether or not our exports have picked up to the extent that we had hoped for when the 1985 farm bill was passed and what are the factors contributing to the pick up in exports.

We also expect to be enlightened on whether or not we can anticipate a broader use of Public Law 480, section 416, section 108 in the donation programs that we would put under there, I guess, under the broad umbrella of Food for Peace.

Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you very much, Mr. Chairman. I must apologize to you and our distinguished witnesses. We have a markup going on in the Small Business Committee upstairs and I came in to make an appearance to express my gratitude that we have this hearing today, to tell you that we are most interested in this subject in my State of Missouri.

We are rapidly increasing the production of Winter wheat, I expect, from about 25 million bushels a couple of years ago, up to as high as 60 or 65 this year, as I understand it.

So, we are very much interested in the programs you described.

I will be reviewing the statements of all of those who testify today. I would say only that I certainly concur with the statement made by Administrator Kay and others that our problems in wheat exports are exacerbated by the European Community and their subsidization of exports.

I continue to believe that the proposal put forward by the administration to end the subsidies and unfair practices in agricultural trade over the next 10 years gives us the best hope for putting the world market for agricultural goods back on a sound footing to avoid the very costly commodity payments we make in this country and the even more costly payments that are made by the European Community.

And with my apologies, I would assure the witnesses that I will be reviewing their statements and I would ask your permission to have a full statement submitted for the record.

Senator MELCHER. Without objection, the prepared statements of Senator Bond and Senator McConnell will be placed in the record in their entirety at this point.

[The prepared statements of Senator Bond and Senator McConnell follow:]

STATEMENT BY SENATOR CHRISTOPHER S. BOND (R-MO.)
MAY 17, 1988

Mr. Chairman, I commend you for holding this morning's hearing to discuss the supply and demand outlook for this year's wheat crop. It is a genuine pleasure to analyze an issue before it actually becomes a crisis.

Although many of us are optimistic about a turnaround in American Agriculture, wheat may prove to be one of our best success stories. Farm prices remain above loan levels, exports continue to increase and ending stocks are projected to be the lowest since 1981. In fact, with ending stocks in 1988/1989 projected to be less than 1 billion bushels, the Secretary must set the mandatory acreage reduction level no higher than 20 percent--down from 27.5 percent this year.

As we are all aware, two of the main goals of the Food Security Act of 1985 were to restore competitiveness and reduce surpluses of agricultural commodities. In 1981, U.S. wheat exports reached a peak of 46 percent of the world market, but fell to 31 percent by 1985. Projections for the 1988 crop indicate that U.S. exports will rebound to 37 percent of world trade. Also, USDA projects that almost three-fourths of U.S. wheat production in 1988 will be exported. Although the tools implemented in the Food Security Act of 1985 have played a major role, this revival can also be attributed to a combination of other factors such as stronger foreign demand and reduced exports from our competitors.

Ending stocks have been reduced significantly as a result of the increase in demand--especially exports. In 1985, wheat ending stocks were approximately 97 percent of utilization. In 1986, the percentage dropped to 83 percent and forecasts for 1987 indicate a decline to approximately 45 percent. According to USDA, if the supply and demand picture remains the same in 1988/89, ending stocks could fall to only 31 percent of utilization. To put this in another way, in 1988/89 ending stocks will have decreased by roughly 58 percent since 1985/85.

In my home state of Missouri, winter wheat production has gone from around 18 million bushels in 1986 to more than 35 million bushels in 1987. The most recent projections for the 1988 crop suggest another increase to approximately 65 million bushels--an increase of more than 261 percent. In light of my last comment, I am especially pleased to see continued expansion in wheat utilization.

Although many factors relevant to the upcoming wheat harvest look bright, we cannot allow ourselves to once again become complacent. We should continue to be aggressive in world markets, continue to seek new markets and continue to improve the quality of our products. It is also important to continue to support our negotiating team involved in efforts to secure another long-term grain agreement with the Soviet Union.

Mr. Chairman, you have assembled a very distinguished and knowledgeable list of witnesses to address the current wheat outlook. I look forward to hearing their views on the current crop and would welcome any insight they could provide regarding next year's wheat crop.

STATEMENT OF SENATOR MITCH McCONNELL
HEARING ON THE WHEAT SUPPLY SITUATION: REVIEWING CURRENT STOCKS AND PRODUCTION ESTIMATES FOR THE UPCOMING HARVEST
MAY 17, 1988

Mr. Chairman:

I would like to begin by commending the Distinguished Chairman for calling this timely hearing to review the wheat supply situation. As the Secretary of Agriculture preparea to issue program provisions for the 1989 wheat program, I look forward to hearing from these notable witnesses with their evaluation of current stocks as well as production estimates for the upcoming harvest season. I am certain their insights into the current market situation for wheat will be helpful to us.

Certainly the estimated surplus stocks of wheat will have a great influence on the authorized levels of the Acreage Reduction Program for 1989. A growing world demand for wheat coupled with increased exports under the Export Enhancement Program will also have an impact on wheat supplies in the coming year. The wheat program in 1989 will need to reflect these changes in the marketplace.

However, alterations in farm policy should be made with caution, mindful of the long-term consequences to domestic agricultural productivity and world markets. The provisions affecting the wheat program found in the most recent Budget Reconciliation Act, including the establishment of a target price and basic loan rate, should provide direction for this program until the 1990 Farm Bill. We must be sensitive to changes in the loan rate, and consider the impact of any program changes on our competitive position in the world market.

I am one of those who believe the 1985 Farm Bill is working, and the wheat program is evidence of this success. Though, no doubt, minor changes are in order from time to time. I would emphasize again that we need to be cautious of any radical change; today's hearing will be helpful as we continue to monitor the wheat program and I thank the witnesses for taking the time meet with us this morning.

I thank the Chair.

Senator MELCHER. On my witness list we have asked our three witnesses to appear as a panel. The first witness is Thomas Kay, Administrator of Foreign Agricultural Service from the Department of Agriculture. Tom, welcome to the committee and we're anxious to review your testimony.

STATEMENT OF THOMAS O. KAY, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. KAY. Thank you, Mr. Chairman, it's nice to be back. It's always a privilege for me to appear before your subcommittee in my capacity as Administrator of the Foreign Agricultural Service and vice president of the Commodity Credit Corporation.

I look forward today to discussing the wheat export situation and our programs to expand wheat sales overseas.

WORLD WHEAT SITUATION AND OUTLOOK

World wheat surpluses are expected to shrink further in 1988–89, despite early indications that the 1988 wheat crop of 521 million tons will be second only to the record 1986 harvest of 530 million tons. Overall, wheat supplies and requirements should be in close balance.

Beginning world wheat stocks will be substantially lower for 1988–89, due to a sharp pickup in import demand last year which contributed to a stock reduction of almost 30 million tons. Much of this stock reduction took place in the major grain exporting countries. For example, the United States is expected to draw stocks down by about 16 million tons to 34 million tons, while Canada is expected to reduce stocks by about one-fourth to about 9 million tons. The United States will still have significant reserves of quality wheat to draw on if there should be an unexpected surge in import demand, or if there should be some unusual crop problem here or overseas this coming season. U.S. wheat stocks at the end of 1988–89 are expected to fall to over slightly 20 million tons, the lowest since the early 1980's.

World wheat utilization in 1988–89 is expected to exceed production for the second consecutive year, although the situation will not be as dramatic as in the season now ending. Utilization for the coming year could be as much as 15 million tons greater than production. This year it was around 30 million tons larger. As a result, world wheat stocks will be drawn down again, and, by the end of the 1988–89 marketing year, could be nearly 45 million tons below the peak of just 2 years earlier which was 176 million tons. World wheat trade in 1988–89 is expected to total close to 100 million tons, about 5 percent below the previous year's high level. An expected sharp decline in Soviet wheat imports to 15 million tons, nearly a third below year-earlier imports, will be more than offset by increased demand in Asian and North African markets such as India, Pakistan, Algeria, and Tunisia.

Export competition is expected to continue to be intense in 1988–89 as world wheat import demand declines from current levels.

Smaller U.S.S.R. wheat import demand is likely to be the most significant factor affecting U.S. sales prospects in 1988–89.

In the year just ending, we expect to reach 43.6 million tons of wheat exports—up 60 percent from the year before. That level, Mr. Chairman, compares well to the record of 48.2 million tons set in 1981–82.

Although worldwide demand for U.S. wheat is expected to decline to 41 million tons in 1988–89, the United States is still expected to draw heavily on stocks to meet demand. Consequently, U.S. wheat stocks are expected to register another sharp decline, falling to 21.7 million tons by the summer of 1989.

To illustrate the situation, the demand for White wheat is expected to continue quite strong in the year ahead. The outlook for the 1988 White wheat crop has improved somewhat from earlier expectations and the crop may turn out to be close to last year's 216 million bushels. A strong export market and good domestic demand should readily absorb this crop resulting in another year of stock drawdown.

SUBSIDIZED COMPETITION AND RESTRICTED IMPORTS

Mr. Chairman, no statement on the world wheat situation can be complete without referring to the trade distorting measures which our wheat producers face overseas. Subsidized competition continues to be a great obstacle against our expanded wheat exports. The EC wheat export subsidy rates currently are $153 for wheat, $200 for flour, $200 for semolina, and about $145 for feed wheat. The combination of EC price support programs and export subsidies stimulates record production in Western Europe nearly every year.

Mr. Chairman, our country would have less need for an Acreage Reduction Program for wheat if it were not for the accumulated effect of such subsidization policies of our competitors. And many importing countries continue to restrict imports. In contrast to the problem of subsidized competition, import restrictions may take much longer to change, but we continue working on it. Now and then there is some relaxation and we are hopeful it will be easier as we demonstrate U.S. competitiveness and dependable supply. Import liberalization could also make a big difference in our export opportunities and it is well worth the continued effort in the General Agreement on Tariffs and Trade (GATT) and the other channels.

CONTINUING OUR PLUS IN THE WORLD FEED GRAINS SECTOR

Even though the world supply and demand balance for wheat is looking healthier and more optimistic, a major concern is the continuing surplus in related commodities, which are mostly feed grains. There is always the ready potential in many foreign countries to expand wheat production quickly if the market should begin to improve. There is a lot of surplus capacity in feed grains production. Other exporting countries will put this into wheat whenever there is the slightest encouragement. In the long run, if we hope for better conditions for wheat, there also needs to be an expansion in overseas demand for livestock feed and other uses of feed grains.

ADJUSTING PRICE SUPPORT RATES TO IMPROVE COMPETITIVENESS OF U.S. WHEAT OVERSEAS

The adjusting of price support rates, which began with changes made by the Food Security Act of 1985, has helped make U.S. commodities more competitive on the world market.

This action is creating more demand from importing countries. When world prices are more competitive, there is more pressure from budgetary officials and importing countries to take advantage of cheap imports rather than opting for expensive domestic programs to stimulate local production. There is a similar effect on consumer prices in importing countries as long as the government authorities can see that more liberal food supplies are not causing as much strain on the economy. Basically, when world prices are lower, pressures for self-sufficiency gradually subside. This has a large impact on trade opportunities. The lower price support rates also discourage unwarranted expansion by competing countries. Before lowering of price support rates, each time acreage was taken out of production in the United States, other exporting countries expanded acreage and our problems got worse.

OTHER AGRICULTURAL EXPORT ASSISTANCE PROGRAMS

We have been using the export programs authorized by the Commodity Credit Corporation Charter Act and the Food Security Act of 1985 to support an aggressive export effort and that effort is paying off.

The Export Enhancement Program and the Targeted Export Assistance Program have helped U.S. exporters meet subsidized competition in world markets. Credit guarantee programs and market development efforts have helped in expanding existing markets and developing new ones. The Food for Peace Program has helped provide food assistance and long-term credit to needy countries.

I would like to highlight some of our efforts geared specifically to help boost U.S. wheat exports.

Consequently, I will have to say a few good words about the Export Enhancement Program (EEP).

Since the Export Enhancement Program was initiated in 1985, over 100 initiatives have been announced for 12 commodities. The market value of certificates issued for EEP has totaled $2.061.3 million since 1985. Thirty-five of those initiatives were for wheat, eight, for wheat flour; and two, for semolina. Close to 40 million tons of wheat and wheat flour and 73,000 tons of semolina have been sold under the program. EEP sales have represented almost one-half of our total volume of our total wheat and flour exports.

Of course, the EEP is looked upon as a temporary program, and for the long run it is highly desirable to get back to a system where all foreign buyers get the same price when they buy U.S. wheat. But as long as we're competing with subsidized exports and monopoly selling organizations, which traditionally use different prices for different markets, the targeting feature has been helpful as a competitive tool. It provides the flexibility to either raise or lower bonuses as necessary. It has also been extremely helpful in managing the program to minimize bonuses. As soon as subsidized competition in a particular market eases, we are able to lower the bonus

of that market and insist that bidders raise their purchase prices. Then, as one buyer pays a higher price, it helps to ratchet others into following the trend upward.

Today, average bonuses are half what they were 6 months ago, even though our domestic wheat price has crept up somewhat. In other words, the level of prices paid for imports by EEP countries has gone up $25 to $40 per ton in the last 6 months and we feel it would have been extremely difficult to realize the recent upward trend in world prices had it not been for the targeted nature of the EEP, which requires separate price and separate bonus calculations for each overseas market. By the same token, if world prices should begin to decline, or competition becomes stronger in the months ahead, the flexibility of the EEP Program would readily allow us to follow those new developments with a minimum of cost.

The Targeted Export Assistance Program (TEA) also helps U.S. agricultural commodities counter or offset the effects of unfair trade practices of foreign competitors or importers. Over the past 3 years, we have signed agreements with U.S. Wheat Associates, Inc. which provided over $7 million to help promote wheat in foreign markets. Under the TEA Program, for example, U.S. Wheat Associates has begun a worldwide effort to educate buyers in other countries about new classes of U.S. wheat. This effort is important in letting potential customers see the advantages of different types of wheat so they can select the type that matches their particular needs. As a result of this TEA project, last year Korea bought Durum wheat for the first time.

The organization also is building and equipping flour mills in Egypt and Morocco as training projects. Local millers will learn to use wheat efficiently, so that eventually they would expand their milling to include U.S. commodities.

We also continue to work with U.S. Wheat Associates in our long-term market development program under the Cooperator Program. Over the years, joint activities have included overseas trade servicing, training and education programs, trade exhibits, trade missions and other projects to help boost U.S. wheat efforts.

The Public Law 480 Food for Peace Program also helps move U.S. wheat overseas. By way of comparison, commercial wheat exports are expected to account for about 90 percent of wheat overseas shipments in the year ahead. This will be somewhat higher than 5 years ago.

Over the last 5 years, wheat and wheat flour exports under P.L. 480, title I, have averaged about 4 million tons per year, or about 80 percent of the total tonnage exported under the program during this period. In fiscal year 1988 we expect to program about 3.7 million tons of wheat and wheat flour. That is about 82 percent of the total tonnage. Our 1989 budget proposal includes about 4 million tons of wheat and flour. That represents about 84 percent of the total tonnage.

Title II wheat and wheat flour donations will average close to 1 million tons and about 50 percent of the total program volume.

The section 416 Food Assistance Program initially focused on foreign donation of dairy products. The Food Security Act of 1985 expanded eligible commodities and in fiscal year 1987, the total volume of commodities committed was expanded to over 1.4 million

tons with wheat and wheat flour representing close to 70 percent of commodities made available under section 416 of the Agricultural Act of 1949.

The short-term Export Credit Guarantee Program, known as GSM-102 guarantees repayment of short-term loans made by private banks to eligible countries that purchase U.S. farm products. Wheat and wheat flour exports under this program have averaged about 7 to 8 million tons over the past 5 years. In fact, wheat and wheat flour represent about one-fourth of the total tonnage exported under this program. At this point in fiscal year 1988, wheat and wheat flour registrations are running at 25 percent of the total program.

The Intermediate Export Credit Guarantee Program, known as GSM-103, authorized by the Food Security Act of 1985 provides 3- to 10-year loan guarantees to help developing nations make the transition from concessional financing to cash purchases. In fiscal year 1987, wheat and wheat flour became the major commodity exported under this program—representing about 70 percent of the $154 million program total. Wheat and wheat flour registrations in fiscal year 1988 are currently running at 55 percent of total GSM-103 registrations.

In conjunction with the declining value of the dollar and declines in competitor wheat production, these programs have had a significant effect in turning our export situation around. In fiscal year 1988, the volume of U.S. agricultural exports is expected to climb to 142.5 million tons—a 9-percent increase. The value of agricultural exports is projected to rise to $32.5—billion—a 15-percent increase. These increases come on the heels of a strong recovery in exports in 1987 and wheat is sharing in this overall U.S. agricultural export success.

Just this morning, Mr. Chairman, the trade figures for the month of March were announced and I am happy to report that the highest monthly total in agricultural exports were reported in over 3 years, throwing total exports for agricultural commodities at 3.3 billion for the month of March with an ag trade balance of $1.2 billion.

And I am happy to report that the total trade deficit declined in March from over $13 billion down to $9.7 billion, which indeed is a healthy sign.

In summary, Mr. Chairman, I have a chart I'd like to show you on the wheat exports, if somebody could hold this up.

This pretty much summarizes what we've said. If we look at the marketing rates of 1985-86, 1986-87 and 1987-88, as projected, or 1988-89, you will see that this has been our best year in quite a while with a 43.5—approaching the record year of 1981-82, when we had 48.5.

Not only are we increasing in volume each year, Mr. Chairman, but we're regaining our share of the world market. Our share of the world market in 1981-82 was down 47 percent. This year it will be around 42-43 percent.

So, we believe that with the tools you've given us and with the dedication that our people have shown—that we are recovering in volume and in market share.

Thank you, Mr. Chairman, for your kind attention. I would be happy to answer any questions.

Senator MELCHER. Thank you, Tom. Without objection, the statement of Mr. Kay will be placed in the record in its entirety at this point.

[The prepared statement of Mr. Kay, with attachments, follow:]

Statement by Thomas O. Kay
Administrator, Foreign Agricultural Service
U.S. Department of Agriculture
Before the Subcommittee on Agricultural Production and Stabilization of Prices
Senate Committee on Agriculture, Nutrition. and Forestry
May 17, 1988

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to discuss the wheat export situation and our programs to expand wheat sales overseas.

World Wheat Situation and Outlook

World wheat surpluses are expected to shrink further in 1988/89 despite early indications that the 1988 wheat crop of 521 million tons will be second only to the record 1986 harvest of 530 million tons. Overall, wheat supplies and requirements should be in close balance.

Beginning world wheat stocks will be substantially lower for 1988/89 due to a sharp pickup in import demand last year which contributed to a stock reduction of almost 30 million tons. Much of this stock reduction took place in the major grain exporting countries. For example, the United States is expected to draw stocks down by about 16 million tons to 34 million tons. While Canada is expected to reduce stocks by about one-fourth to around 9 million tons. The United States will still have significant reserves of quality wheat to draw on if there should be an unexpected surge in import demand, or if there should be some unusual crop problem here or overseas this coming season. U.S. wheat stocks at the end of 1988/89 are expected to fall to slightly to over slightly 20 million tons, the lowest since the early 1980's.

World wheat utilization in 1988/89 is expected to exceed production for the second consecutive year, although the situation will not be as dramatic as in the season now ending. Utilization for the coming year could be as much as 15 million tons greater than production. This year it was around 30 million tons larger. As a result, world wheat stocks will be drawn down again and, by the end of the 1988/89 marketing year, could be nearly 45 million tons below the peak of just 2 years earlier which was 176 million tons. World wheat trade in 1988/89 is expected to total close to 100 million tons, about 5 percent below the previous year's high level. An expected sharp decline in Soviet wheat imports to 15 million tons, nearly a third below year-earlier imports, will be more than offset by increased demand in Asian and North African markets such as India, Pakistan, Algeria and Tunisia.

Export competition is expected to continue to be intense in 1988/89 as world wheat import demand declines from current levels.

Smaller USSR wheat import demand is likely to be the most significant factor affecting U.S. sales prospects in 1988/89.

In the year just ending, we expect to reach 43.6 million tons of wheat exports--up 60 percent from the year before. That level compares well to the record of 48.2 million tons set in 1981/82.

Although worldwide demand for U.S. wheat is expected to decline to 41 million tons in 1988/89, the United States is still expected to draw heavily on stocks to meet demand. Consequently, U.S. wheat stocks are expected to register another sharp decline, falling to 21.7 million tons by the summer of 1989.

To illustrate the situation, the demand for white wheat is expected to continue quite strong in the year ahead. The outlook for the 1988 white wheat crop has improved somewhat from earlier expectations and the crop may turn out to be close to last year's 216 million bushels. A strong export market and good domestic demand should readily absorb this crop resulting in another year of stock draw-down.

Subsidized Competition and Restricted Imports

Mr. Chairman, no statement on the world wheat situation can be complete without referring to the trade distorting measures which our wheat producers face overseas. Subsidized competition continues to be a great obstacle against our expanded wheat exports. The EC wheat export subsidy rates currently are $153 for wheat, $200 for flour, $200 for semolina, and about $145 for feed wheat. The combination of EC price support programs and export subsidies stimulates record production in Western Europe nearly every year.

Mr. Chairman, our country would have less need for an acreage reduction program for wheat if it were not for the accumulated effect of such subsidization policies of our competitors. And many importing countries continue to restrict imports. In contrast to the problem of subsidized competition, import restrictions may take much longer to change, but we continue working on it. Now and then there is some relaxation, and we are hopeful it will be easier as we demonstrate U.S. competitiveness and dependable supply. Import liberalization could also make a big difference in our export opportunities, and it is well worth the continued effort in the General Agreement on Tariffs and Trade (GATT) and the other channels.

Continuing Surplus in the World Feed Grains Sector

Even though the world supply/demand balance for wheat is looking healthier and more optimistic, a major concern is a continuing surplus in related commodities, which are mostly feed grains. There is always a ready potential in many foreign countries to expand wheat production quickly if the market should begin to improve. There is a lot of surplus capacity in feed grains production. Other exporting countries will put this into wheat whenever there is the slightest encouragement. In the long run, if we hope for better conditions for wheat, there also needs to be an expansion in overseas demand for livestock feed and other uses of feed grains.

Adjusting Price Support Rates to Improve Competitiveness of U.S. Wheat Overseas

The adjusting of price support rates which began with changes made by the Food Security Act of 1985 has helped make U.S. commodities more competitive on the world market.

This action is creating more demand from importing countries. When world prices are more competitive, there is more pressure from budgetary officials in the importing countries to take advantage of cheap imports rather than opting for expensive domestic programs to stimulate local production. There is a similar effect on consumer prices in importing countries as long as the government authorities can see that more liberal food supplies are not causing as much strain on the economy. Basically when world prices are lower, pressures for self-sufficiency gradually subside. This has a large impact on trade opportunities. The lower price support rates also discourage unwarranted

expansion by competing exporters. Before lowering of price support rates, each time acreage was taken out of production in the United States, other exporting countries expanded acreage and our problem got worse.

Other Agricultural Export Assistance Programs

We have been using the export programs authorized by the Commodity Credit Corporation Charter Act and the Food Security Act of 1985 to support an aggressive export effort and that effort is paying off.

The Export Enhancement Program and the Targeted Export Assistance program have helped U.S. exporters meet subsidized competition in world markets. Credit guarantee programs and market development efforts have helped in expanding existing markets and developing new ones. The Food for Peace Program has helped provide food assistance and long-term credit to needy countries.

I would like to highlight some of our efforts geared specifically to help boost U.S. wheat exports.

Under the Export Enhancement Program (EEP) commodities owned by the Commodity Credit Corporation are used as export bonuses to make U.S. commodities more competitive in the world marketplace, and to offset the adverse effects of unfair trade practices or subsidies.

Since the Export Enhancement Program was initiated in 1985, over 100 initiatives have been announced for 12 commodities. The market value of certificates issued for EEP has totaled $2.061.3 million since 1985. Thirty-five of those initiatives were for wheat; eight, for wheat flour; and two, for semolina. Close to 40 million tons of wheat and wheat flour and 73,000 tons of semolina have been sold under the program. EEP sales have represented almost one-half the volume of our total wheat and flour exports.

Of course, the EEP is a temporary program, and for the long run it is highly desirable to get back to a system where all foreign buyers get the same price when they buy U.S. wheat. But as long as we are competing with subsidized exports and monopoly selling organizations which traditionally use different prices for different markets, the targeting feature has been helpful as a competitive tool. It provides the flexibility to either raise or lower bonuses as necessary. It has also been extremely helpful in managing the program to minimize bonuses. As soon as subsidized competition in a particular market eases, we are able to lower the bonus to that market and insist that bidders raise their purchase prices. Then, as one buyer pays a higher price, it helps to ratchet others into following the trend upward.

Today, average bonuses are half what they were 6 months ago, even though our domestic wheat price has crept up somewhat. In other words, the level of prices paid for imports by EEP countries has gone up $25 to $40 per ton in the last 6 months and we feel it would have been extremely difficult to realize the recent upward trend in world prices had it not been for the targeted nature of the EEP which requires separate price and separate bonus calculations for each overseas market. By the same token, if world prices should begin to decline or competition becomes stronger in the months ahead, the flexibility of the EEP program would readily allow us to follow those new developments with a minimum of cost.

The Targeted Export Assistance Program (TEA) also helps U.S. agricultural commodities counter or offset the effects of unfair trade practices of foreign competitors or importers. Over the past 3 years, we have signed agreements with U.S. Wheat Associates, Inc. which provided over $7 million to help promote wheat in foreign markets. Under the TEA program, for example, U.S. Wheat Associates has begun a worldwide effort to educate buyers in other countries about new classes of U.S. wheat. This effort is important in letting potential customers see the advantages of different types of wheat so they can select the type that matches their particular needs. As a result of this TEA project, last year Korea bought durum wheat for the first time.

The organization also is building and equipping flour mills in Egypt and Morocco as training projects. Local millers will learn to use wheat efficiently so that eventually they will expand their milling to include U.S. commodities.

We also continue to work with U.S. Wheat Associates in our long-term market development effort under the Cooperator Program. Over the years joint activities have included overseas trade servicing, training and education programs, trade exhibits, trade missions and other projects to help boost U.S. wheat exports.

The Public Law 480 Food for Peace Program also helps move U.S. wheat overseas. By way of comparison, commercial wheat exports are expected to account for about 90 percent of wheat overseas shipments in the year ahead. This will be somewhat higher than 5 years ago.

Over the last 5 years, wheat and wheat flour exports under P.L. 480 Title I have averaged about 4 million tons per year, or about 80 percent of the total tonnage exported under the program during this period. In fiscal year 1988 we expect to program about 3.7 million tons of wheat and wheat flour. That is about 82 percent of total tonnage. Our 1989 budget proposal includes about 4 million tons of wheat and flour. That represents about 84 percent of total tonnage.

Title II wheat and wheat flour donations will average close to 1 million tons and about 50 percent of the total program volume.

The Section 416 food assistance program initially focused on foreign donation of dairy products. The Food Security Act expanded eligible commodities and in fiscal year 1987 the total volume of commodities committed was expanded to over 1.4 million tons with wheat and wheat flour representing close to 70 percent of commodities made available under Section 416 of the Agricultural Act of 1949.

The Short-term Export Credit Guarantee Program (GSM-102) guarantees repayment of short-term loans made by private banks to eligible countries that purchase U.S. farm products. Wheat and wheat flour exports under this program have averaged about 7 to 8 million tons over the past 5 years. In fact, wheat and wheat flour represent about one-fourth of the tonnage exported under this program. At this point in fiscal year 1988, wheat and wheat flour registrations are running at 25 percent of the total program.

The Intermediate Export Credit Guarantee Program (GSM-103) authorized by the 1985 Food Security Act provides 3- to 10-year loan guarantees to help developing nations make the transition from concessional financing to cash

purchases. In fiscal 1987, wheat and wheat flour became the major commodity exported under this program--representing about 70 percent of the $154 million program total. Wheat and wheat flour registrations in fiscal 1988 are currently running at 55 percent of total GSM-103 registrations.

In conjunction with a declining value of the dollar and declines in competitor wheat production, these programs have had a significant effect in turning our export situation around. In fiscal year 1988, the volume of U.S. agricultural exports is expected to climb to 142.5 million tons--a 9-percent increase. The value of agricultural exports is projected to rise to $32.5 billion--a 15-percent increase. These increases come on the heels of a strong recovery in exports during 1987 and wheat is sharing in this overall U.S. agricultural export success.

That completes my testimony, Mr. Chairman, I will be happy to answer questions.

PATRICK J. LEAHY, VERMONT, CHAIRMAN
JOHN MELCHER, MONTANA
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DAVID L. BOREN, OKLAHOMA
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DAVID K. KARNES, NEBRASKA

United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

June 28, 1988

Mr. Thomas O. Kay
Administrator
Foreign Agriculture Service
U.S. Department of Agriculture
14th and Independence Streets, S.W.
Washington, D.C. 20250

Dear Mr. Kay:

I appreciate your testifying before the Committee on May 17, 1988. Enclosed are additional questions which are being submitted to you for written answers. I would appreciate receiving your answers to the questions by July 19 1988 so that the hearing record may be printed as soon as possible.

Thank you for your cooperation.

Sincerely,

John Melcher

JOHN MELCHER
Chairman
Subcommittee on Agricultural Production
and Stabilization of Prices

QUESTIONS FROM SENATOR TOM DASCHLE
HEARING ON WHEAT SUPPLY SITUATION, REVIEWING CURRENT STOCKS AND PRODUCTION ESTIMATES
MAY 17, 1988

FOR: THOMAS KAY

Your agency also has the responsibility of monitoring crop production in other countries. Since our demand picture relies heavily on world production, accuracy is important. How accurate have our estimates been over the past years?

With CCC approaching almost normal carryover level, what happens to EEP, do we close up on it or reduce export incentives? On that same note, what is considered normal carryover level?

Department of Agriculture | Agricultural Service | 20250

Copy

JUL 29 1988

Honorable John Melcher
Chairman
Subcommittee on Agricultural Production
and Stabilization of Prices
Committee on Agriculture,
Nutrition, and Forestry
United States Senate
Washington, D.C. 20510-6000

Dear Mr. Chairman:

This is in response to your questions regarding foreign crop production estimates and the Export Enhancement Program.

The accuracy of the Department's foreign production estimates has varied over the years. While these estimates are not based upon objective yield surveys by our staff, they are based on the best information available from USDA's global network of agricultural attaches and counselors as well as independent analysis by our home based staff. On a monthly basis, the foreign production situation is reviewed and revised. Weather factors are the main reason for changes in production estimates during the growing season. Our analysis shows that over the past 7 years, the difference between the first foreign wheat production estimate and the final estimate has averaged about 14 million tons (3 percent). The first projection has been below the final estimate four times and above three times.

The Department continues to recognize the necessity for using the EEP in competing effectively with unfair trade practices utilized by the European Community and in achieving our objectives in multilateral trade negotiations. The extent to which use of the EEP will be required to ensure U.S. competitiveness during the remainder of the season will largely be determined by domestic and international prices.

There is, to our knowledge, no precise level or definition of "normal" carry-over for wheat. There have been times in recent history when a 600-million bushel carry-over appeared more than adequate, and others when a 900-million level seemed insufficient. The question depends upon many factors, such as feed grain stocks, foreign countries' wheat stocks, whether acreage reduction programs are in effect, and others.

We hope this information is useful to you.

Sincerely,

THOMAS O. KAY
Administrator

WORLD WHEAT PRODUCTION

	1988/89 ESTIMATE	CHANGE FROM MONTH AGO	CHANGE FROM YEAR AGO
	--- Million Metric Tons ---		
WORLD	520.7	NA	15.8
UNITED STATES	59.1	NA	1.8
TOTAL FOREIGN	461.7	NA	14.1

MAY 1988

WORLD WHEAT PRODUCTION

	1988/89 ESTIMATE	CHANGE FROM MONTH AGO	CHANGE FROM YEAR AGO
	--- Million Metric Tons ---		
FOREIGN EXPORTERS	122.5	NA	2.8
Argentina	10.0	NA	NC
Australia	13.0	NA	0.9
Canada	25.4	NA	−0.9
EC−12	74.1	NA	2.8

MAY 1988

WORLD WHEAT PRODUCTION

	1988/89 ESTIMATE	CHANGE FROM MONTH AGO	CHANGE FROM YEAR AGO
	--- Million Metric Tons ---		
MAJOR IMPORTERS	237.5	NA	13.0
Brazil	5.1	NA	−1.1
China	91.0	NA	3.3
Eastern Europe	41.3	NA	2.3
Egypt	2.5	NA	0.1
Other N. Africa	4.6	NA	−0.4
USSR	92.0	NA	8.7

MAY 1988

WORLD WHEAT PRODUCTION SUMMARY - 1988/89
MAY 10, 1988

REGION	1988/89 ESTIMATE	CHANGE FROM 1987/88	COMMENT
	--MILLION METRIC TONS--		
WORLD	520.7	15.8	Up 3 percent from last year.
United States	59.1	1.8	Up 3 percent from last year.
TOTAL FOREIGN	461.7	14.1	Up 3 percent from last year.
MAJOR FOR. EXPORTERS	122.5	2.8	Up 2 percent from last year.
Argentina	10.0	NC	Unchanged from last year.
Australia	13.0	0.9	Up 7 percent, higher area and yield.
Canada	25.4	-0.9	Down 3 percent, lower estimated yield.
EC-12	74.1	2.8	Up 4 percent, higher yield estimates.
MAJOR IMPORTERS	237.5	13.0	Up 6 percent from last year.
Brazil	5.1	-1.1	Down 18 percent, return to normal yield.
China	91.0	3.3	Up 4 percent, higher area and yield.
Eastern Europe	41.3	2.3	Up 6 percent, improved yield.
Egypt	2.5	0.1	Up 4 percent, increased area.
Other N. Africa */	4.6	-0.4	Down 4 percent from last year, lower area.
Japan	1.0	0.1	Up 16 percent, increased area and yield.
USSR	92.0	8.7	Up 10 percent, higher yield and area.
OTHER FOREIGN	101.7	-1.7	Down 2 percent from last year.
India	44.0	-1.6	Down 4 percent, lower area and yield.
Pakistan	12.3	0.1	Up slightly from last year.

*/ Algeria, Libya, Morocco, and Tunisia.

FOREIGN PRODUCTION ESTIMATES DIVISION/FAS/USDA

WORLD WHEAT PRODUCTION

	1988/89 ESTIMATE	CHANGE FROM MONTH AGO	CHANGE FROM YEAR AGO
		--- Million Metric Tons ---	
OTHER FOREIGN	101.7	NA	−1.7
Iran	6.5	NA	0.5
India	44.0	NA	−1.6
Pakistan	12.3	NA	0.1
Bangladesh	1.2	NA	−0.1
Iraq	0.7	NA	NC
Mexico	3.2	NA	−0.5

MAY 1988

WORLD WHEAT SUMMARY - 1988/89
10-May-88

	PRODUCTION		TRADE 1/	
	MMT	CHANGE FROM YEAR AGO (PERCENT)	MMT	CHANGE FROM YEAR AGO (PERCENT)
WORLD	520.7	3.1	111.1	-4.1
UNITED STATES	59.1	3.1	40.8	-6.2
FOREIGN	461.7	3.2	70.3	-2.8
CANADA	25.4	-3.6	21.0	-6.7
AUSTRALIA	13.0	+7.4	10.2	-2.9
EC-12 2/	74.1	+3.9	27.8	+1.9
USSR	92.0	+10.4	(15.0)	-31.8
E. EUROPE	41.3	+5.8	(3.0)	-15.7
BRAZIL	5.1	-17.1	(1.8)	0.0
CHINA	91.0	+3.7	(13.5)	0.0
MEXICO	3.2	-13.5	(1.2)	+71.4
TUNISIA	0.3	-77.9	(1.2)	+33.3
INDIA	44.0	-3.5	(3.0)	3/

1/ IMPORTS IN PARENTHESIS.
2/ INCLUDES INTRA-EC TRADE.
3/ LESS THAN 100,000 TONS OF IMPORTS IN 1987/88.

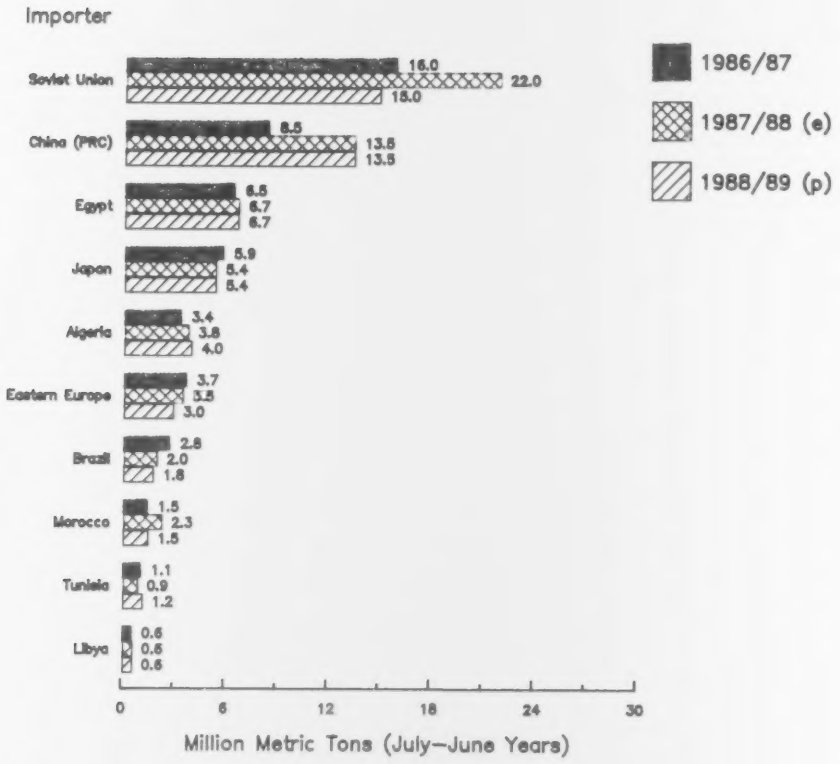
U.S. WHEAT - 1988/89

	(MMT)	CHANGE FROM YEAR AGO (PERCENT)
BEG. STOCKS	33.5	-32.4
PRODUCTION	59.1	3.1
TOTAL SUPPLY	93.0	-13.3
DOMESTIC USE	30.5	0.9
EXPORTS	40.8	-6.3
TOTAL USE	71.3	-3.3
ENDING STOCKS	21.7	-35.3

U.S. WHEAT - 1988/89

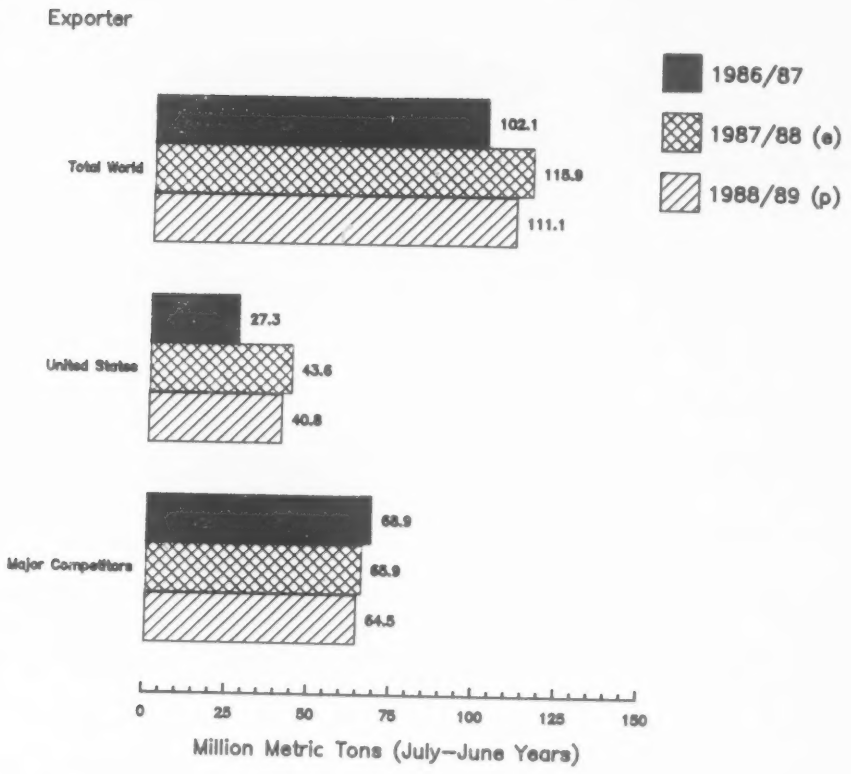
	(MBU)	CHANGE FROM YEAR AGO (PERCENT)
BEG. STOCKS	1231	-32.4
PRODUCTION	2170	3.1
TOTAL SUPPLY	3416	-13.3
DOMESTIC USE	1120	0.9
EXPORTS	1500	-6.3
TOTAL USE	2620	-3.3
ENDING STOCKS	796	-35.3

SOVIET UNION TOPS LIST OF WORLD'S TEN LARGEST WHEAT IMPORTERS



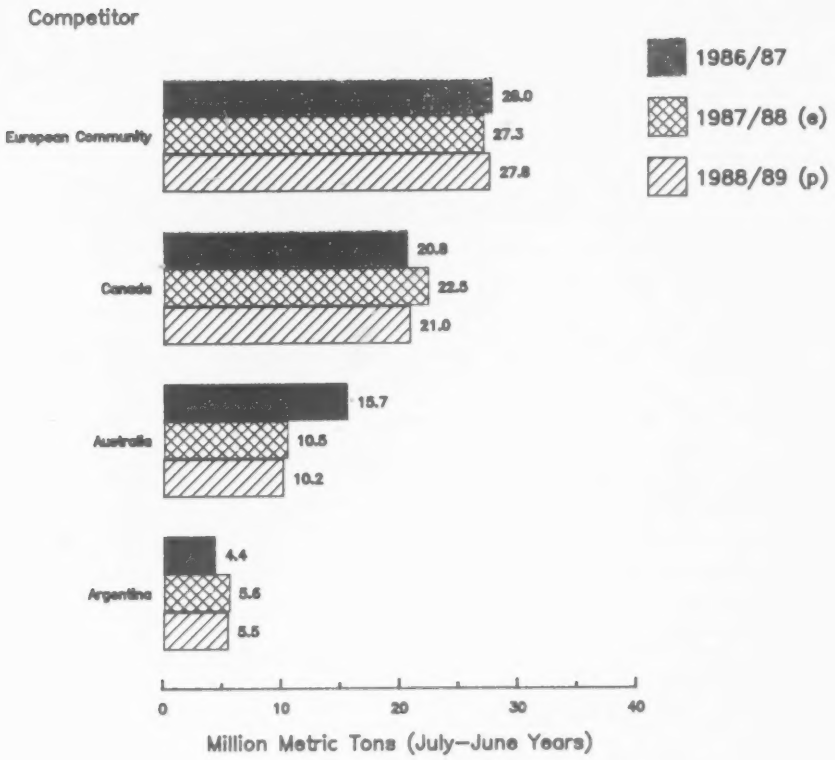
Source: WASDE #218 and GEDES Database.

WHEAT EXPORT SUMMARY...
WORLD, UNITED STATES, AND MAJOR COMPETITORS



Source: WASDE #218

MAJOR U.S. COMPETITORS FOR WORLD WHEAT MARKET



Source: WASDE #218

Senator MELCHER. Mr. Hertz, please proceed.

STATEMENT OF MILTON J. HERTZ, ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. HERTZ. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you and other members of the subcommittee in the capacity as the Administrator of ASCS and as the executive vice president of the Commodity Credit Corporation to provide you with information on the developments of the U.S. wheat situation since the time the Food Security Act of 1985 was enacted and prospects for the upcoming 1988-89 marketing year.

Mr. Chairman, U.S. wheat carryover stocks of 1,905 million bushels reached their peak on June 1, 1986. The previous high mark was 1,515 million bushels following the 1982-83 marketing year. Therefore, as we began implementing the Food Security Act of 1985, the situation for wheat was dismal. Not only were stocks at record levels, but exports for the 1985-86 marketing year at 915 million bushels were at the lowest levels since the 1971-72 marketing year, and a 48 percent decline from the record level of 1.771 million in 1981. This situation had developed principally because of high price support levels mandated by the Agriculture and Food Act of 1981. Consequently, the combination of the provisions of the 1981 act and the strength of the U.S. dollar relative to other foreign currencies, significantly reduced our competitiveness in international markets. Our share of the world wheat trade reached a high of 47.5 percent during the 1981-82 marketing year but had declined to 29.4 percent for the 1985-86 marketing year. For 1987-88 marketing year, our share of the world wheat trade is expected to be 42 percent. Also, our carryover wheat stocks on June 1, 1988, are expected to be slightly over 1.2 billion bushels, a 35 percent decline in just 2 years.

Mr. Chairman, I would now like to outline how the provisions of the 1985 act have contributed to the significant improvement in the wheat supply and demand situation. The market oriented direction of the 1985 act, with emphasis on expanding exports through the Export Enhancement Program, significantly lower price support levels, partially decoupled payments from production, and authority to implement the generic commodity certificate program have been key elements that have contributed to the strides achieved in the wheat complex over the last 2 years.

The use of the generic commodity certificates by CCC since May 1986 has permitted wheat stocks, which were isolated from the marketplace at very uncompetitive prices, to enter the marketplace to supply a growing domestic and foreign demand for high quality wheat at competitive prices. All segments of the wheat industry have benefited. Farmers have achieved gains that otherwise would not have been possible through selling the certificates at levels above face value—on average of about 5 to 10 percent—or exchanging them for their own wheat which had been pledged as collateral under various price support loan programs. Since its inception, nearly 1.3 billion bushels of wheat have been exchanged with generic certificates. Producers have exchanged certificates for nearly

550 million bushels which had been released as collateral for CCC price support loans. Additionally, another 700 million bushels of wheat owned by the CCC have been acquired by holders of certificates. CCC stocks of wheat during the past year have declined from a level of 830 million bushels on June 1, 1987, to 279 million bushels on May 1, 1988. In addition, the timely action of Congress in December 1987 which reduced the minimum level of wheat required to be maintained in the Farmer Owned Reserve Program to 300 million bushels has played a significant role in making adequate stocks available to meet both domestic and export demand. This action has also allowed CCC to use its inventory more effectively.

These stocks no longer overhang the market and future wheat prices can respond to more traditional supply/use factors rather than be influenced by a skewed situation where the majority of the carryover stocks were tied up under various Government programs.

Mr. Chairman, the Export Enhancement Program has also been a major factor in increasing these exports during the past year. My fellow Administrator of FAS, Tom Kay, has addressed this issue.

As mentioned earlier in my testimony, wheat stocks at the end of the 1987–88 marketing year, June 1, 1988, are expected to be about 1.2 billion bushels, a decline of nearly 600 million bushels from a year earlier. This decline is the largest year-to-year volume change on record. Exports are projected at 1.6 billion bushels, up 59 percent last year, and the second highest ever. Another bright spot for wheat is the growing domestic use for food.

Traditionally, food use growth has been about 2 percent per year, however, during the past 3 years, food use has been expanding at an annual pace of 5 percent. Wheat food use is expected to top 750 million bushels for 1987–88, compared with slightly over 600 million bushels in 1980–81. The 27.5 percent Acreage Reduction Program in effect for the 1987 crop held production at nearly the same level as for the previous year's crop. Consequently, with total use for the 1987–88 marketing year at over 2.7 billion bushels, this has resulted in a precipitous decline in wheat carryover this year.

Mr. Chairman, the Department's forecasts show the wheat situation will improve even more during the 1988–89 marketing season.

Producers participating in the 1988 program will, again, be required to reduce their wheat acreage bases by 27.5 percent to end program benefits. We expect the 1988 enrollment to be about the same as 1987 enrollment, and at this point in time, Mr. Chairman, I can report to you that the preliminary data we have on the enrollment signup indicates that our participation level will be about 2 percent less than last year, 2 to 3 percent. Based on the Department's May 1 Winter wheat production estimate and tend production for Spring wheat crop, we estimate that the 1988 crop production will be 2.17 billion bushels, up about 3 percent over last year. However, this estimate can be greatly influenced by weather conditions during the balance of the growing season. And as you know, Mr. Chairman, moisture and growing conditions in your State, and much of the Northwest and North Central parts of the United States are less than ideal. A continuation of these conditions could dramatically affect the outturn of the 1988 Spring and Winter wheat crops in these regions.

We expect domestic use for the 1988-89 season will remain at about 1.1 billion bushels, similar to the past 2 years. Exports have projected to be at 1.5 billion bushels. Therefore, total use for the 1988-89 marketing year will likely be over 2.6 billion bushels.

This will be the third successive year that use has exceeded production. As a result, we expect carryover wheat stocks a year from now will fall below 800 million bushels, the lowest level since the 1975-76 marketing year. Farm prices for wheat are expected to average in the $2.80 to $3.20 per bushel for the 1988 crop season compared with a $2.55 to $2.60 average for the 1987 crop.

We are in the process of formulating the 1989 wheat program. The Acreage Reduction Program will not exceed 20 percent, since beginning stocks are expected to be below 1 billion bushels. A reduction in the ARP is a clear example of the success of the provisions of the 1985 act in increasing farm income and making U.S. exports competitive.

The Department is pleased with the results that have been achieved in the wheat sector during the past 2 years. To continue these positive steps will require a continued commitment to market oriented farm policy with stocks readily accessible to the market. We believe the future economic growth in the wheat sector is very encouraging.

Mr. Chairman, that concludes my remarks and I would be happy to respond to any questions at the appropriate time.

Senator MELCHER. Thank you very much. Without objection, the statement of Mr. Hertz will be placed in the record in its entirety at this point.

[The prepared statement of Mr. Hertz, with attachments, follow:]

Statement of Milton J. Hertz, Administrator
Agricultural Stabilization and Conservation Service
before the
Committee on Agriculture, Nutrition and Forestry
Subcommittee on Agricultural Production and Stabilization of Prices
United States Senate
May 17, 1988

Thank you, Mr. Chairman. I appreciate the opportunity to appear before you and other members of the Subcommittee in the capacity as the Administrator of the Agricultural Stabilization and Conservation Service (ASCS) and the Executive Vice President of the Commodity Credit Corporation (CCC) to provide you with information on the developments of the U.S. wheat situation since the time the Food Security Act of 1985 was enacted and prospects for the upcoming 1988/89 marketing year.

Mr. Chairman, U.S. wheat carryover stocks at 1,905 million bushels reached their peak on June 1, 1986. The previous high mark was 1,515 million bushels following the 1982/83 marketing year. Therefore, as we began implementing the Food Security Act of 1985 (the 1985 Act), the situation for wheat was dismal. Not only were stocks at record levels, but exports for the 1985/86 marketing year at 915 million bushels were at the lowest level since the 1971/72 marketing year and a 48 percent decline from the record level of 1.771 million in 1981. This situation had developed principally because of the high price support levels mandated by the Agriculture and Food Act of 1981 (the 1981 Act). Consequently, the combination of the provisions of the 1981 Act and the strength of the U.S. dollar relative to other foreign currencies significantly reduced our competitiveness in international markets. Our share of the world wheat trade reached a high of 47.5 percent during the 1981/82 marketing year but had declined to 29.4 percent for the 1985/86 marketing year. For the 1987/88 marketing year our share of world wheat trade is expected to be 42 percent. Also, our carryover wheat stocks on June 1, 1988, are expected to be slightly over 1.2 billion bushels, a 35 percent decline in just 2 years.

Mr. Chairman, I would now like to outline how the provisions of the 1985 Act have contributed to this significant improvement in the wheat supply and demand situation. The market-oriented direction of the 1985 Act with emphasis on expanding exports through the export enhancement program, significantly lower price support levels, partially decoupling payments from production, and authority to implement the generic commodity certificate program have been key elements that have contributed to the strides achieved in the wheat complex over the past 2 years.

The use of generic commodity certificates by CCC since May 1986 has permitted wheat stocks which were isolated from the marketplace at very uncompetitive prices to enter the marketplace to supply a growing domestic and foreign demand for high quality wheat at competitive prices. All segments of the wheat industry have benefited. Farmers have achieved gains that otherwise would not have been possible through selling their certificates at levels above face value--on average about 5 to 10 percent--or exchanging them for their own wheat which had been pledged as collateral under various price support loan programs. Since its

inception, nearly 1.3 billion bushels of wheat have been exchanged with generic certificates. Producers have exchanged certificates for nearly 550 million bushels of wheat which had been released as collateral for CCC price support loans. Additionally, another 700 million bushels of wheat owned by the CCC have been acquired by holders of certificates. CCC stocks of wheat during the past year have declined from a level of 830 million bushels on June 1, 1987, to 279 million bushels on May 1, 1988. In addition, the timely action of Congress in December 1987 which reduced the minimum level of wheat required to be maintained in the Farmer Owned Reserve Program to 300 million bushels has played a significant role in making adequate stocks available to meet both domestic and export demand. This action has also allowed CCC to use its inventory more effectively.

These stocks no longer overhang the market and future wheat prices can respond to more traditional supply/use factors rather than be influenced by a skewed situation where the majority of the carryover stocks were tied up under various Government programs.

Mr. Chairman, the export enhancement program has also been a major factor in increasing wheat exports during the past year. Tom Kay, Administrator of the Foreign Agricultural Service will (or has) address(ed) this issue in more detail.

As mentioned earlier in my testimony, wheat stocks at the end of the 1987/88 marketing year--June 1, 1988--are expected to be about 1.2 billion bushels, a decline of nearly 600 million bushels from a year earlier. This decline is the largest year-to-year volume change on record. Exports are projected at 1.6 billion bushels, up 59 percent over last year and the second highest ever. Another bright spot for wheat is the growing domestic use for food. Traditionally, food use growth has been about 2 percent per year, however, during the past 3 years food use has been expanding at an annual pace of 5 percent. Wheat food use is expected to top 750 million bushels for 1987/88 compared with slightly over 600 million bushels in 1980/81. The 27.5 percent acreage reduction program in effect for the 1987 crop held production at nearly the same level as for the previous year's crop. Consequently, with total use for the 1987/88 marketing year at over 2.7 billion bushels, this has resulted in a precipitous decline in wheat carryover this year.

Mr. Chairman, the Department's forecasts show the wheat situation will improve even more during the 1988/89 marketing season.

Producers participating in the 1988 program will again be required to reduce their wheat acreage bases by 27.5 percent to earn program benefits. We expect the 1988 enrollment to be about the same as the 1987 enrollment, at 87 percent of the total national wheat acreage base. Based on the Department's May 1 winter wheat production estimate and trend production for spring wheat crop, we estimate that 1988-crop production will be 2.17 billion bushels, up about 3 percent over last year. However, this estimate can be greatly influenced by weather conditions during the balance of the growing season. As you know, Mr. Chairman, moisture and growing conditions in your State, and the Northwest and north-central parts of the U.S. are less than ideal. A continuation of these conditions could dramatically affect the outturn of the 1988 spring and winter wheat crops in these regions.

We expect domestic use of wheat for the 1988/89 season will remain at about 1.1 billion bushels, similar to the past 2 years. Exports are projected to be at 1.5 billion bushels. Therefore, total use for the 1988/89 marketing year will likely be over 2.6 billion bushels.

This will be the third successive year that use has exceeded production. As a result, we expect carryover wheat stocks a year from now will fall below 800 million bushels, the lowest level since the 1975/76 marketing year. Farm prices for wheat are expected to average $2.80-$3.20 per bushel for the 1988 crop season compared with a $2.55-$2.60 average price for the 1987 crop.

We are in the process of formulating the 1989 Wheat Program. The acreage reduction program will not exceed 20 percent since beginning stocks are expected to be below 1 billion bushels. A reduction in the ARP is a clear example of the success of the provisions of the 1985 Act in increasing farm income and making U.S. exports competitive.

Mr. Chairman, the Department is pleased with the results that have been achieved in the wheat sector during the past 2 years. To continue these positive steps will require a continued commitment to a market-oriented farm policy with stocks readily accessible to the market. We believe the future economic growth in the wheat sector is very encouraging.

Mr. Chairman, that concludes my remarks. I will be pleased to answer questions from you or other members of the Subcommittee.

PATRICK J. LEAHY, VERMONT, CHAIRMAN
JOHN MELCHER, MONTANA
DAVID H. PRYOR, ARKANSAS
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DAVID K. KARNES, NEBRASKA

United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

June 28, 1988

Mr. Milton Hertz
Administrator
Agriculture Stabilization and Conservation Service
U.S. Department of Agriculture
14th and Independence Streets, S.W.
Washington, D.C. 20250

Dear Mr. Hertz:

I appreciate your testifying before the Committee on May 17, 1988. Enclosed are additional questions which are being submitted to you for written answers. I would appreciate receiving your answers to the questions by July 19 1988 so that the hearing record may be printed as soon as possible.

Thank you for your cooperation.

Sincerely,

John Melcher

JOHN MELCHER
Chairman
Subcommittee on Agricultural Production
and Stabilization of Prices

QUESTIONS FROM SENATOR TOM DASCHLE
HEARING ON WHEAT SUPPLY SITUATION, REVIEWING CURRENT STOCKS AND PRODUCTION ESTIMATES
MAY 17, 1988

FOR: MILTON HERTZ

Please comment on the proposal that exists regarding premiums and discounts that could be offered for wheat going under loan with the Government?

USDA estimates that ending stocks for the 1987-1988 harvest will be 1.2 billion bushels. What was last year's projection given that the actual ending stock was 1.8 billion bushels and our demand component was rather strong?

USDA also estimates that ending stocks will be 1.2 billion bushels for this harvest season, yet your estimates for carry over stock show a 300-400 billion bushel disappearance. Both domestic use and feed and residual are relatively static, therefore, how much of the decrease is determined by an aggressive EEP? How much performance depends on continued use of EEP to achieve the USDA estimate?

Government costs for farm projects have jumped. Net cash outlays for commodity price and income support programs totaled about $22.4 billion in 1987 and an estiamted additional $34.8 billion in 1988 and 1989. Deficiency payments were $4,833 million in 1987 and in 1989 projected at $5,513 million. However, wheat prices are higher, I do not quarrel at all with export increases, yet there is concern that by drastically changing ARP, we may have a drastic impact on the market, do you agree?

United States Department of Agriculture
Agricultural Stabilization and Conservation Service
P.O. Box 2415
Washington, D.C. 20013

JUL 25 1988

July 25, 1988

Honorable John Melcher
Chairman, Subcommittee on Agricultural
Production and Stabilization of Prices
Committee on Agriculture, Nutrition and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to Senator Daschle's questions concerning my testimony, on May 17, 1988, before the Subcommittee on Agricultural Production and Stabilization of Prices, Committee on Agriculture, Nutrition and Forestry.

The Department of Agriculture (USDA) does not support a study and a pilot project for the 1989 crops of wheat, soybeans and feed grains to determine a feasible method of establishing a schedule of premiums and discounts with respect to grain offered to the Commodity Credit Corporation (CCC) as loan collateral in order to encourage and facilitate the marketing of high quality, clean grain for domestic use and for export.

It is believed that such pilot project would result in additional costs for which there would be no real corresponding benefit. Most of the grain on which producers receive loans from CCC is stored on the farm where the loans are disbursed without regard to the official grades of the loan collateral. Upon forfeiture, the grain is delivered to a commercial warehouse for the account of CCC, where it is graded and commingled with grain owned by many other depositors. We do not see the benefit of applying premiums and discounts to this grain that are not consistent with market premiums and discounts.

Premiums and discounts are negotiated daily between buyers and sellers. It is at this point in the grain marketing chain that the true value of the grain quality is determined. As these quality factor values can change daily, it is difficult to see how the USDA can ascertain premiums and discounts that always relate to market values.

U.S. stocks of wheat on June 1, were 1,266 million bushels. In May 1987, USDA's initial forecast of June 1988 stocks was 1,778 million bushels, over 500 million bushels more than the final stock figure. The decrease in stocks is mostly due to an increase in exports, although domestic use increased as well. The Export Enhancement Program (EEP) accounted for about two-thirds of total wheat exports during crop year 1987.

U.S. stocks of wheat on June 1, 1989, are forecast to be only 666 million bushels, a decline of 600 million bushels from the present level. Lower beginning stocks plus the drought-reduced spring crop means supplies at the beginning of this year are more than 800 million bushels below year-earlier levels. Because of the shorter supply and higher prices, use will likely fall by over 200 million bushels. The EEP will continue to be an integral component of U.S. farm policy.

ASCS

The acreage reduction program (ARP) for the 1989 wheat crop was set at 10 percent and announced in late May. Our analysis examined ARPs of 0, 10, 15 and 20 percent. The 10-percent ARP resulted in the best balance among stock levels, exports, farm income and budget considerations.

The Secretary has until July 31 to make any changes in the ARP level if market conditions significantly change since the program was announced. Any changes in the ARP level will take into consideration the impact on farm prices.

Thank you for sharing your concerns with us.

Sincerely,

Milt Hertz

Administrator

STATEMENT OF DUANE ACKER, ASSISTANT TO THE ADMINISTRATOR FOR FOOD AND AGRICULTURE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, DEPARTMENT OF STATE

Dr. ACKER. Thank you, Mr. Chairman. We appreciate the opportunity to appear before you and to be available to respond to your questions regarding the outlook for wheat exports in fiscal years 1988 and 1989 as related to the food aid programs administered by AID. I will provide an overview of several years of P.L. 480 and section 416 activity.

I recognize that this hearing focuses on wheat, which represents about 70 percent of P.L. 480, title I, shipments in fiscal year 1987, 3.7 million metric tons out of a total of 5.5 million metric tons.

In addition to that, wheat flour shipments provided another 8 percent or about 440,000 metric tons. For fiscal year 1988, program authorizations to date total 2.85 million metric tons of wheat or 67 percent of the total of 4.3 million metric tons.

Similarly, title I fiscal year 1988 wheat flour levels have remained constant at about 8 percent. And I might point out, Mr. Chairman, that there's about $20 million of the $824 million for fiscal year 1988 that is yet to be allocated.

For fiscal year 1989 title I projected levels are 3.2 million metric tons of wheat and 312,000 metric tons of wheat flour.

Commodity pricing will have some influence on the final figures and I would point out that there is yet an unallocated reserve of a little over $85 million. This, too, could have an impact on the overall wheat levels.

Title II of P.L. 480 levels range from 784,000 metric tons in 1987 down to 495,000 metric tons in 1988 and projected for 1989, back up to 539,000 metric tons. I would point out that the fiscal year 1987 level, which you will note to be significantly higher, included over 200,000 metric tons of wheat granted that fiscal year to the Government of the Philippines, which satisfied demand currently being met by other U.S. Government programs. Whereas a significant portion of the P.L. 480, title I, is bulk wheat, title II targeted feeding programs rely a bit more heavily upon processed grain products. Wheat products such as bulgur and wheat flour accounted for 22 percent of the title II commodities in contrast to about 7 or 8 percent wheat flour for title I.

The 22 percent bulgur and wheat flour, for title II in fiscal year 1987, compares with 21 percent in fiscal year 1988 to date, and are projected to be 22 percent in fiscal year 1989.

Since fiscal year 1986, grain products have been exported under the section 416(b) authority. By its nature, section 416 permits ad hoc programming subject to the Secretary of Agriculture's annual availability determination. Wheat authorizations through section 416 totaled more than 500,000 metric tons in FY 1987 and for 1988 are 1.1 million metric tons. And you're aware, of course, that this significant increase is due significantly to the sugar quota allocations.

For fiscal year 1989, subject to determination by the Secretary at the beginning of the fiscal year, section 416 commodities will be used to the fullest extent possible. Thank you, Mr. Chairman.

Senator MELCHER. Without objection, the statement of Dr. Acker, will be placed in the record in its entirety at this point.

[The prepared statement of Dr. Acker, with attachments, follow:]

Statement by Duane Acker
Assistant to the Administrator for Food and Agriculture
U.S. Agency for International Development
Before the Subcommittee on Agricultural Production
and Stabilization of Prices
Senate Committee on Agriculture
May 17, 1988

Mr. Chairman, members of the Subcommittee, we appreciate the opportunity to appear before you and respond to your questions regarding the outlook for wheat exports for fiscal years 1988 and 1989 under the food aid programs administered by A.I.D.. At the outset, let me put the matter in perspective by providing an overview of several few years of P.L. 480 and Section 416 activity.

Wheat represented approximately 70 percent (3.7 million mt) of P.L. 480 Title I shipments in FY 1987 (5.5 million mt). Wheat flour authorizations provided another eight percent. In comparison P.L. 480 Title I FY 1988 program authorizations to date total 2.853 million metric tons or 67 percent of total allocations. Similarly Title I FY 1988 wheat flour levels have remained constant at eight percent (331,000 mt).

Preliminary indications for FY 1989 Title I projected wheat levels of 3.204 million metric tons and 312,000 metric tons wheat flour. Commodity pricing and formal allocations of the unallocated reserve ($85.7 million) could have a direct influence on overall wheat levels.

P.L. 480 Title II presents somewhat of a different picture. Overall wheat levels have ranged from 784,000 metric tons approved in FY 1987, 495,000 metric tons authorized to date in FY 1988 to projected FY 1989 levels of 539,000 metric tons. The FY 1987 level includes over 200,000 metric tons of wheat granted to the Government of the Philippines which satisfied demand currently being met by other USG programs. Whereas a significant portion of P.L 480 Title I is bulk wheat, Title II targetted feeding programs rely more heavily upon processed grain products. Wheat products such as bulgur and wheat flour accounted for 22 percent of the Title II commodity allocations in FY 1987, 21 percent in FY 1988 to date and are projected to be 22 percent in FY 1989.

Since FY 1986, grain products have been exported under the Section 416 (b) authority. By its nature Section 416 permits ad hoc programming subject to the Secretary of Agriculture's annual availability determination. Wheat authorizations through Section 416 totalled more than 500,000 metric tons in FY 1987, are currently 1.1 million metric tons in FY 1988. Subject to a Secretary of Agriculture determination for FY 1989, Section 416 commodities will be used to the fullest extent possible.

Letters and responses to questions follow:

PATRICK J. LEAHY, VERMONT, CHAIRMAN
JOHN MELCHER, MONTANA
DAVID H. PRYOR, ARKANSAS
DAVID L. BOREN, OKLAHOMA
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DAVID K. KARNES, NEBRASKA

United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

June 28, 1988

Dr. Duane Acker
Assistant to the Administrator for Food and Agriculture
Agency for International Development
Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Dr. Acker:

I appreciate your testifying before the Committee on May 17, 1988. Enclosed are additional questions which are being submitted to you for written answers. I would appreciate receiving your answers to the questions by July 19 1988 so that the hearing record may be printed as soon as possible.

Thank you for your cooperation.

Sincerely,

John Melcher

JOHN MELCHER
Chairman
Subcommittee on Agricultural Production
and Stabilization of Prices

QUESTIONS FROM SENATOR TOM DASCHLE
HEARING ON WHEAT SUPPLY SITUATION, REVIEWING CURRENT STOCKS AND PRODUCTION ESTIMATES
MAY 17, 1988

FOR: DUANE, AUKER

There have been complaints about grain quality from our customers, in light of these complaints, what quality grain do we ship under PL-480?

Is there a process whereby recipients can register such complaints?

The Food for Progress program reduces surpluses by providing commodities to countries that are attempting to become more market oriented. It provides some transitional assistance. The 1985 Farm Bill specifically mentions a minimum of 75,000 metric tons. What has been the actual extend of this program?

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

August 1, 1988

Senator John Melcher
Chairman
Subcommittee on Agricultural Production
and Stabilization of Prices
United States Senate
Washington, D.C. 20510-6000

Dear Senator Melcher:

Thank you for your June 28, 1988 letter seeking additional information as a follow-up to the May 17 Committee hearings.

I believe you will find the enclosed information useful in responding to Senator Tom Daschle's questions. If I can be of further assistance or provide additional information, please let me know.

Sincerely,

Duane Acker
by JR

Duane Acker
Assistant to the Administrator
for Food and Agriculture

Enclosures - a/s

GRAIN QUALITY

Question: There have been complaints about grain quality from our customers, in light of these complaints, what quality grain do we ship under PL 480?

Answer: All PL 480 grains are purchased according to United States Department of Agriculture Federal Grain Inspection Service Official U.S. Standards for Grain. Additionally the grains are inspected by FGIS prior to export from the U.S. and rejected if they do not comply with requisite standards. Exceptions are permitted in those instances where sales are involved and discounts are negotiated between buyer and seller. Efforts have been made in recent years to improve U.S. grain standards particularly in the areas of insect damaged kernels and dockage.

A distinction should be made between PL 480 Title I programs under which the U.S. Government provides concessional funding for purchase of U.S. agricultural products by recipient governments and Title II under which commodity grants are made to cooperating sponsors and recipient governments.

Commodity specifications for Title I procurements are determined by the recipient governments and to a large extent are influenced by the intended consumer. For example specifications for wheat sold to flour millers could be more rigorous than those for corn or sorghum intended for animal feed.

Title II grains are made available from Commodity Credit Corporation inventories or purchased on the the U.S. commercial market. Procurement guidelines for Title II wheat and sorghum specify U.S. grade number two or better; whereas, the corn specification requires grade number two for all factors except brokens and foreign material where grade number three is permitted.

In those instances where Title II programs involve a sales component, every effort is made to provide high quality grains with market potential in the recipient country. Although wheat classes are not grading factors per se, both USDA and A.I.D. have become more sensitive and therefore responsive to the need for cooperating sponsors to specify wheat classes tailored to their potential market.

GRAIN QUALITY COMPLAINT PROCESS

Question: Is there a process thereby recipients can register such complaints?

Answer: Complaints related to PL 480 grain quality are registered through U.S. embassies or A.I.D. Missions. Appropriate A.I.D. personnel, Ag attaches, and APHIS staff conduct in-country reviews while simultaneously advising Washington agencies regarding specifics of the complaint.

FGIS/Washington retains the services of a fulltime technician specifically to investigate PL 480 commodity related complaints. His responsibilities include domestic and overseas travel to assist in the review, analysis and resolution of commodity complaints. Services of other U.S. government agencies are also drawn upon as appropriate.

FOOD FOR PROGRESS

Question: The Food for Progress program reduces surpluses by providing commodities to countries that are attempting to become more market oriented. It provides some transitional assistance. The 1985 Farm Bill specifically mentions a minimum of 75,000 metric tons. What has been the actual extend of this program?

Answer: Three country programs have been approved under the Food for Progress (FFPR) authority. Programs for Guinea and Madagascar were signed in FY 1986 authorizing shipments over a three year period contingent upon commodity availability. Initial increments of 30,000 metric tons of rice for each country were shipped using Commodity Credit Corporation rice inventories under the Section 416 (b) authority. The absence of rice in the FY 1987 and FY 1988 Section 416 Secretary of Agriculture availability determinations precluded continuation of the programs through Section 416 (b).

The second year commitment for Guinea has been partially met with a FY 1988 PL 480 Title II Section 206 rice program valued at $13 million, approximately 27,000 metric tons. Continuation of the Madagascar program was largely unnecessary in that price stabilization for consumers in urban rice markets was successful. Here, too, a FY 1988 PL 480 Title II Section 206 vegetable oil program valued at $3.6 million (5,000 metric tons) has served to further the Agency's developmental goals. A third FFPR program was authorized for Ecuador in FY 1988 permitting shipment of 60,000 metric tons of sorghum valued at $5.9 million.

The enclosed evaluation reports on the Guinea and Madagascar FFPR programs provide additional information and may be of interest to you.

Senator MELCHER. Well, I thank each of you for your testimony. Mr. Hertz, at the start of the year, as I recall the Department was saying that the price of wheat for the 1988 crop would average 5 to 10, maybe 15 cents above the price for the 1987 crop.

While you have given us a broad range of a projected price of $2.80, $3.20, that's quite a shift in 6 months in projected price. How do you account for that?

Mr. HERTZ. Well, Mr. Chairman, I think the stock ending balance that is being projected in the wheat complex certainly has a positive impact on that.

Senator MELCHER. Do you see that happening as of January 1?

Mr. HERTZ. Not as clearly as when we made our most recent projections.

Senator MELCHER. What did you tie it to, your projection, as of late December, early January? What did you tie that projection price to? No increase in exports?

Mr. HERTZ. We have one of our analysts here. Randy, could I ask you to respond to that.

Mr. WEBER. Mr. Chairman, in January in the President's budget, we were looking at a big smaller exports for 1987-88. Since that time the exports have increased, therefore, the overall carryover for 1987-88 is down from January expectations.

And we're looking at slightly higher exports for 1988-89 than we were in the President's budget, so the combination of all of these have resulted in about a 300 million bushel decline in carryover stocks from our January expectations. This has generally resulted in the higher price expectation.

Senator MELCHER. And you buy this range of $2.80 to $3.20?

Mr. WEBER. Yes.

Senator MELCHER. Do you concur with that?

Mr. WEBER. Yes.

Senator MELCHER. That's a pretty broad range, isn't it?

Mr. WEBER. It is a very broad range, I agree, this early in the——

Senator MELCHER. What are you analyzing right now? You know, there's been a dramatic change, not so much in where the wheat was needed.

There's been a dramatic change in the judgment of the administration on whether they're going to use the Export Enhancement Program for wheat. And I would like someone to enlighten me on it. Who made that dramatic shift in policy?

[No response.]

Senator MELCHER. These things don't happen in a vacuum. Come on. Now, where in this hearing—tell us what happened. We think we ought to be advised on this too. I thought your projection at the first of the year was ridiculous myself, but something happened down there. Now, what happened?

Mr. HERTZ. Well, Mr. Chairman, I don't really know how to respond to this except that we aggressively pursued the use of the Export Enhancement Program and it has been successful and stocks have been drawing down.

There has been a slight increase in domestic use of wheat and as the carry-out balance——

Senator MELCHER. I know there has been an increase in the use of the Export Enhancement Program, but I'm just trying to let you have the opportunity to tell me who made that decision and how it happened in the administration. Tom, do you want to answer that?

Mr. KAY. Mr. Chairman, I would say that the Secretary of Agriculture, when he was sworn in, indicated that exports would be his major emphasis.

And as we have moved along with the Export Enhancement Program, with other countries becoming more familiar with it as to how it operates, and with the Secretary making the decision that he is going to pursue an aggressive export policy, particularly, as long as we face subsidized competition from the European Community.

It was the emphasis of the Secretary, along with his friend, Clayton Yeutter, USTR, as well as the interagency group who decided that it was time for us to put pressure on the European Community and go full bore, not only to fight the trade battle, but to help the wheat situation insofar as big stocks, which we had, and give the U.S. farmers a break.

But I would say, Mr. Chairman, perhaps somewhat in a prejudiced way that you would have to give Dick Lyng the majority of the credit for the decision to plow ahead with exports.

Senator MELCHER. In other words, Secretary Lyng overcame some objections from the State Department and other reluctance and reluctant people in the administration? Is that what you're telling me?

Mr. KAY. There wasn't much reluctance to overcome, Mr. Chairman. We've had remarkable cooperation from them since the Secretary indicated that exports would be his emphasis.

Senator MELCHER. And was that decision made on the basis of whether or not we're going to have the Export Enhancement Program for selling wheat to the Soviets?

Mr. KAY. The Export Enhancement Program has been approved for 2 years now for sales to the Soviets and as you know, they have entered into our market this year, buying some 8.9 million metric tons of wheat and they have also bought 4.1 million metric tons of corn, as well as 1.3 million metric tons of soybean meal and 800,000 tons of soybeans.

So, we've had a good market in the Soviet Union and we received cooperation from all agencies involved in allowing this to extend the Export Enhancement Program to the Soviet Union.

Senator MELCHER. Well, wasn't most of the increase within the last 6 months of wheat exports due to, first of all, the increased sales to the Soviets and then matching the same discount to other countries?

Mr. KAY. We have enjoyed good business with the Soviet Union. We have also, Mr. Chairman, raided the China market in a big way. In this marketing year, they've bought about 6 million metric tons of wheat from the United States.

As you know, also India has entered our market for the first time in years, buying a million metric tons of wheat. And Egypt has also been not only a recipient of concessional programs, but also they have bought a lot of wheat under the Export Enhancement Program.

Senator MELCHER. But it started with the Soviets. Right?

Mr. KAY. There's no question about the fact that the Soviet sales boosted our overall export record, yes.

Senator MELCHER. I mean, it started—the past 6 months really started with an increase in Soviet—over what was expected. Is that right?

Mr. KAY. I would say that perhaps the last 2 million metric tons which we made available to them under the Export Enhancement Program started the ball rolling. Yes, sir.

Senator MELCHER. You said that, I guess, of the 1987 crop you projected 400 million bushels went into feed grains through the marketing years. Is that about what you have estimated?

Mr. HERTZ. You mean for domestic use?

Senator MELCHER. You said we consume for people somewhere around 700 million and then you said domestic use was a total of 1.1 million bushels, so that seems to tell me that 400 million bushels went into livestock feed.

Mr. HERTZ. Yes.

Senator MELCHER. Livestock and poultry. Is that right?

Mr. HERTZ. That would be approximately right. Yes, sir.

Senator MELCHER. What is going to be the shift in that and what do you project right now the shift in that when we get up above $3 a bushel for the 1988 crop? How much is going to go into feed at that price?

Mr. HERTZ. I don't know that I could accurately project, Mr. Chairman.

Senator MELCHER. What have you projected? You must have a figure that you projected. Your analyst must have projected something.

Mr. WEBER. Mr. Chairman, for 1988 we are projecting approximately 95 million bushels will be used for seed and 250 million bushels for feed and residual.

Senator MELCHER. So, that will be 300 million bushels that went into livestock and poultry feeds?

Mr. WEBER. Our current estimate for 1987–88 is 275 million bushels.

Senator MELCHER. You are telling me that if the average price of wheat on the farm is $3.20, there is just going to be a decline of 25 million?

Mr. WEBER. Based on the price——

Senator MELCHER. Going into livestock and feed?

Mr. WEBER. Based on the past relationships that we see now into the summer, and most of the wheat feeding occurs during the June–September timeframe, the models would at least suggest feeding at about that level.

Senator MELCHER. I see.

Mr. WEBER. Certainly, higher prices are going to impact and may impact that ultimate number.

Senator MELCHER. Senator Daschle has to preside at 11 o'clock. So, I will cease any questions right now.

Senator DASCHLE. I appreciate the witnesses coming today. I don't know if they have had the opportunity to see the article in the "Journal of Commerce." But it states a lot about your forecasts and projections.

The article states that frankly, you have not had a very good record. Not just this administration, but the Department of Agriculture for many years has just not had a very good record in forecasts.

[The "Journal of Commerce" article entitled "Farm Forecasts Ills Muddy the Budget" follows:]

FARM FORECAST ILLS MUDDY THE BUDGET

(By Albert L. Kraus)

The commodities pages carried an important bit of news last week. The Department of Agriculture revised its soybean forecast downward sharply, predicting that by Aug. 31 next year stockpiles will have fallen to their lowest level since 1976.

But don't bet on it. Like weather forecasters before the use of satellites, radar and computers, department analysts have been wrong before, and they are likely to be wrong again.

The speedy rundown of U.S. soybean stockpiles since last fall has powered the biggest bull market in soybean futures since a drought five years ago pushed up the average spot price of soybeans to $7.83 a bushel.

At the end of last week, the spot price in Chicago was $7.185 a bushel, up from $5.605 a bushel last year. Of the total increase, 39.25 cents occurred in the last week alone.

Like the 1983 price run-up, this year's sharp increase in soybean prices reflects concerns about the weather. Conditions have been dryer than anticipated in soybean growing regions. But it also reflects the department's efforts to cut output and increase exports.

The latest department forecast trimmed the 1988 carryout on Aug. 31, the end of the crop year, to 275 million bushels, down from an earlier forecast of 290 million. It put the carryout a year later at 145 million bushels, well below market estimates of 150 million to 200 million bushels.

The only problem according to industry analysts, is that department forecasts sometimes miss the mark.

Cathy Leow, an assistant vice president and soybean analyst at Thomson McKinnon Securities in New York, for instance, noted that the department's most recent figures were based on farmer surveys conducted before planting even began.

Just how far off the mark the department may be was indicated in a report just released by the General Accounting Office. It found that farm program costs have exceeded department estimates by more than $46 billion over a 15-year period.

The Commodity Credit Corp. was the principal culprit. The report said its forecasts were billions of dollars off target under both Republican and Democratic presidents and erred more frequently by underestimating rather than overestimating the money required.

In the years 1972 through 1986, the report said, department spending for farm income and price support programs totaled $110.7 billion. CCC forecasts for the period were $63.8 billion, or $46.9 billion too low.

"USDA's budget estimates were substantially incorrect in most years," the report said. It put average costs at $3.1 billion a year above the forecasts.

The report reviewed estimates for three commodities, corn, wheat and dairy products. They accounted for 63% of net outlays and 77% of errors in recent years.

It said the corn budget estimates erred both on the upside and down for a total of $25.1 billion. Net, the estimates were $14.5 billion below costs. This represented the largest single miscalculation.

The GAO said errors stemmed not from one source but from a wide range of difficulties, ranging from mistakes in forecasting supply and demand to problems in managing data and documentation.

"Although USDA's forecasting methods generally have been developed by a highly skilled staff, little attention has been paid to reviewing and evaluating whether these methods work as intended," the report said.

It also said the department lacked a formal quality control program but had taken some action to correct its forecasting problems.

More obviously needs to be done. Commodity Credit Corp. estimates are separate from the figures contained in the president's budget. Budget figures are funds needed to pay off CCC losses already on the books.

But instead of warning the Congress against situations that might put strain on the budget, the department forecasts have tended to exacerbate the situation.

A high priority for the incoming administration.

Senator DASCHLE. It indicates that out of $110 billion spent for CCC programs in the last 15 years, we were off by $47 billion, this is almost a 50 percent mistake in forecasting budget costs, not to mention the carryover costs. How does that compare with your own figures?

Mr. HERTZ. Senator, it is true that our projections are lagging, if you will, as we look over the past several years. I think one of the real problems that we run into is that we make budget projections well—more than a year in advance, as they would go into a document that would say that a particular program would cost a particular amount of money.

If you look over the past several 4 or 5 years, we have had, for a while, an economic downturn in agriculture and the participation levels that we had projected were not as accurate as they could have been if we could have been much closer to the time of, let's say, like the signup.

Senator DASCHLE. Don't you think—the problem seems to me that we're just playing games with figures for budgetary purposes.

We project very positive and optimistic crop reports and carryover levels for the purposes of maintaining low budget figures and then come out with a figure far in expanse of that after the budgetary scrutiny is gone. That is what has happened.

I would like to have your response to my last question. The question of budget figures relates to your refusal to extend the wheat loans again for a period of time. We just received your definitive statement on that today. The costs involved to both farmers and taxpayers are high.

Our figures calculated by the Congressional Budget Office are that farmers are going to lose $530 million. It's going to cost the taxpayer an additional $500 million, a complete $1 billion cost to both farmers and taxpayers by your refusal to extend these loans.

Now, is that a miscalculation or is that something that we can contend with and agree with and make a difference in before it's too late.

Mr. HERTZ. Senator, I would agree that the price projections that I referred to earlier are the reaction to having that wheat get away from hanging over the market.

And if we're projecting carryout stocks as low as we are and have over half of it tied up in the farm loan reserve, I don't think we can manage with that——

Senator DASCHLE. Where is this market that—from what we are told, even by your own figures that you've given to us, is that the market isn't there. We're actually moving from farm storage to commercial storage and we're paying 10 cents more a bushel.

Now, that doesn't make sense to me, not for the farmers or for the taxpayer.

Mr. HERTZ. Senator, if we achieve the new statutory level of the reserve, which is the 300 million bushels for wheat, and look at the requirements that the CCC reserves have for security purposes of 167 more million bushels, we're looking at about 60 percent of what we would project as a carryover number at the end of the next marketing year. And that leaves free stocks of wheat treacherously low.

Senator MELCHER. 300 and 167? That's 467 million bushels.

Mr. HERTZ. And if we were to project at the end of the 1988-89 marketing year, somewhere around a 750 to 850 carryout——

Senator DASCHLE. According to the GAO instead of warning the Congress about situations that might put a strain on the budget, Department forecasts have tended to exacerbate the situation.

The sense I have is that it's happening right this minute with projections with regard to carryover, with projections with regard to the market and projections with regard to cost. Thank you, Mr. Chairman.

Senator MELCHER. Thank you, Senator Daschle. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. And, welcome. Good to have you here. We've been eager to have this hearing so that we could have a chance to talk to you about some of these issues.

I would like to go back for a minute, if I could, to the projections on the farm price, because in looking back, I'd be very interested to hear what your analysis is of the comparison of where we are today versus the last time that we were at this level, stock level—which was back in 1982-83.

You're forecasting that carryover will be at about 25 percent of the world's annual usage. The last time we were in that range was 1982-83, 1983-84.

And let's just take 1982-83. At that time the prices at the farm averaged $3.45. Expressed in 1982 dollars, that would be a price of $3.32.

We're now faced with a projection from USDA that the farm price will be $2.80 to $3.20; again expressed in 1982 dollars, that would be $2.27 to $2.60.

What I find perplexing—and I would be very interested to hear what your analysis of it is—why, when we are at about the same level of wheat carryover to usage—that is about 25 percent of the world's usage in carryover—why were we at $3.32 in 1982 dollars for a farm price, in 1982-83, and today you are talking about $2.27 to $2.60 now?

I find that even more perplexing given the fact that the dollar has gone down compared to the 1982-83 period which should strengthen the price.

Do you have an explanation as to why we are looking at such a substantially lower price?

Mr. WEBER. In 1982, Senator, that you've mentioned, the loan rate in the United States was $3.50 a bushel. The carryover stocks in the United States at that point were 1.5 billion bushels.

Basically, the price during that timeframe was being supported by the loan rate of $3.35.

Going into 1988, you're looking at a totally different stock situation, stocks less than half of what they were—we've got a price support loan rate of $2.21 for the 1988 crop.

Basically, I think what has made the difference is probably the 1982-83 price was being supported by the higher loan rates.

Certainly, with the stock situation the way it was, it would not have supported a $3.55 price.

Senator CONRAD. That is the answer I wanted to get from you. Milton, let me ask you this. In your analysis of falling exports you pointed to the dollar's change in value in the first part, that is, "the combination of the provisions of the 1981 act and the strength

of the U.S. dollar relative to other foreign currencies significantly reduced our competitiveness," and then in looking at what's happened subsequently, there was no mention of the dollar differential, that is the change in currency value.

Of course, now the dollar has dropped rather dramatically. Would you attribute part of our improved ability to increase our exports to the decline in the value of the dollar?

Mr. HERTZ. Most certainly.

Senator CONRAD. That has helped our position substantially. Wouldn't that be your analysis as well, that the falling dollar has had a significant effect on us? Do we have numbers that look at the export value in our most recent year, rather than just volumes, export value today compared to what the export value was in the 1981 period?

Mr. KAY. Total value on exports in 1981-82, I believe, was around $44 billion. That was the high watermark year for all agricultural exports.

In 1986, they hit the lowest point we've had since that time, around $26 billion. Last year they were up to 29 and this year——

Senator CONRAD. This year being 1988?

Mr. KAY. This year, this fiscal year. We'll see $32.5 billion.

Senator CONRAD. So, we're still down pretty substantially on an export value basis from the peak of 1981-82. Do you have a projection for 1989, what the export value would be?

Mr. KAY. No.

Senator CONRAD. Let me ask you what your latest estimate of the cost of the program, the overall farm program, $17 billion, I think, is what it is projected to be. Do you have a new estimate for total costs to the CCC?

Mr. HERTZ. I believe, Senator, that the $17 billion number was the last one that I am aware of at any rate.

Senator CONRAD. That has not been changed? You don't see any significant change one way or the other?

Mr. HERTZ. No.

Senator CONRAD. The question that I am being asked when I go home, with increasing frequency, is, "Senator, you've got significant callup now to Farmer Owned Reserve. You've got potential conditions that could lead to price movement, a favorable price movement. Who's going to get the benefit of these changes if there is a price move?"

And as I think of it, we're moving from, what 450 million bushels in the Farmer Owned Reserve to 300 million bushels as a cap. That's substantial movement out of the hands of farmers, into the hands of the Government or into the hands of the grain trade at some point.

What's the answer to that question. Who's going to get the benefit if there is—as it appears—a price increase given weather conditions in producing parts of the country, Montana, my State [North Dakota], South Dakota, other heavy producing areas?

We are faced with extremely dry conditions.

Maybe this report and others indicate that prices are poised for some strengthening in the market. Who's going to get the benefit of a price move at this point?

Mr. HERTZ. Senator Conrad, maybe I can just set a little bit of a background. When you think of the grain that is in the Farmer Owned Reserve, it is unique in that it is isolated by a pricing level that would approach $5 a bushel.

So, for that grain to be moved into the market as a commodity by paying off any loans or any charges, it would be against—for being in the reserve, it's impossible.

In many cases, the commodity certificate is being exchanged for that grain and the farmer is then selling it into the market.

Senator CONRAD. Let me ask you to hold for a minute, Milt, because we are in the middle of a vote. The Chairman has asked me to recess the hearing. We will come back as soon as we can.

I am sorry to interrupt you, but we will have to recess for a few minutes here.

[A brief recess was taken.]

Senator MELCHER. The subcommittee will come to order. Senator Conrad will be back after the vote. In the meantime, I will go on with some of the questions that I have.

Milt, I will ask you this question and then if you want to defer to Tom or both of you want to answer, fine, but I'll start with Milt. You are projecting getting wheat stocks down substantially over the next 12 months.

Now, I believe it is fair to assess here combined testimony, yours, Milt, and Tom Kay's, as dependent upon the Export Enhancement Program to have substantial exports during the next 12 months.

What are the constraints as you view it now? As CCC runs out of available wheat in their warehouses, how are you going to run EEP then?

Mr. HERTZ. Well, Mr. Chairman, I believe that the projections that we have made on what we could assume, let's say, for making decisions in the 1989 wheat program, we would include projected plantings, projected yield, it giving us a volume to work with, plus a carryover and also would have projected exports that would still have a carryout balance at the end of that year that would be a comfortable margin.

Senator MELCHER. As of a few days from now, the marketing year ends. What will be in CCC hands on June 1?

Mr. HERTZ. 250, 275.

Senator MELCHER. All right and that's over and above any reserve that—mandatory reserve?

Mr. HERTZ. Yes.

Senator MELCHER. And over and above what is committed for other programs?

Mr. HERTZ. No, I believe the commitments that we would have for the donation programs would have to come out of that balance.

Senator MELCHER. 250. What is that then? What is available for EEP, the Export Enhancement Program purposes in CCC hands as of June 1 this year?

Mr. WEBER. Mr. Chairman, of the 250 million bushels, approximately 147 has to be maintained in the food security reserve.

Senator MELCHER. So, that leaves 103 million bushels?

Mr. WEBER. I believe 103. I'm not exactly certain what the commitments are for P.L. 480, normally somewhere in the neighborhood of 35 to 50 million bushels.

Senator MELCHER. It would have to come out of that 103?

Mr. WEBER. Come out of that. We're getting into the range of 50 plus.

Senator MELCHER. In the range of 50 million to 65 million. Now, you're projecting the 1988 crop at how much?

Mr. WEBER. We're projecting a 1988 crop of 2.17 billion bushels.

Senator MELCHER. How much of that are you projecting that is going to come into the hands of the CCC during the 12 months of June 1 to June 1?

Mr. WEBER. We would expect none of that to come into the hands of the CCC.

Senator MELCHER. So, what is available then for the Export Enhancement Program? How are you going to run that?

Mr. HERTZ. The reduction of the farm owned reserve in the next 12 months of approximately 90 million bushels.

Senator MELCHER. All right.

Mr. HERTZ. And the 1985 and 1986 crops that were in the one year special producer storage will be coming in. I think the 1985 crop is only about 8 million bushels and 1986, is around 100 million bushels.

Senator MELCHER. What does that add up to?

Mr. HERTZ. Approximately about 250–300 million bushels.

Senator MELCHER. You think that is going to come into CCC hands during that 12-month period?

Mr. HERTZ. No, I think a good bit of that could go into the market.

Senator MELCHER. Yes, I would think so too. So, how much of that would you think would end up in CCC?

Mr. HERTZ. I don't believe I would have any way of projecting that.

Senator MELCHER. Well, is 150 million bushels—how do you want to run Export Enhancement on wheat? Do you want to—do you want to discount it by giving it to whoever makes the sale, some additional wheat. Is that how you want to do it?

Mr. KAY. Traditionally, Mr. Chairman, we would give them certificates to redeem whatever commodity they might want to redeem it for.

Senator MELCHER. Would it be wheat or corn?

Mr. KAY. Whatever they might choose to do.

Senator MELCHER. Well, wheat at $3.20 might be what they choose to do. Have you got it?

Mr. KAY. We believe we'll have enough supply, yes, sir. For the bonus?

Senator MELCHER. Yes, for the bonus.

Mr. KAY. Yes.

Senator MELCHER. In other words, roughly 150 million bushels would be enough bonus for how big a projected sale of wheat under the Export Enhancement Program?

Mr. KAY. Mr. Chairman, you take for granted that all the bonuses paid in certificates were all redeemed in wheat. That has not been the case this year. It will not be the case in the coming year.

But we believe that stocks will be adequate in wheat and certainly in feed grains to carry out an aggressive program just as we have this year.

Senator MELCHER. You know what I suspect? You're flying a little blind on this. You give a certificate. I suppose you could digest your certificates couldn't you. You could say, well, you can have so many bushels per certificate of corn and wheat being worth more per bushel, you could just get more bushels of corn. Is that what you're thinking of?

Mr. HERTZ. I would point out, Mr. Chairman, that the certificate is on the dollar.

Senator MELCHER. It is a dollar value rather than a bushel.

Mr. HERTZ. And then it will just work against either commodity accordingly.

Senator MELCHER. Are you going to use the Export Enhancement Program for corn also?

Mr. KAY. We have not up to now, Mr. Chairman.

Senator MELCHER. Are you going to?

Mr. KAY. I have no reason to believe that at this point that we will.

Senator MELCHER. Well, is that because you don't think other countries are subsidizing exports of corn?

Mr. KAY. No, we believe our corn is competitive at the price that we have on it now.

Senator MELCHER. So, you do not have to?

Mr. KAY. That is correct, sir.

Senator MELCHER. Could it be said that—I hope this isn't the case—but could corn producers feel that you're running the wheat Export Enhancement Program at the expense of corn prices?

Mr. KAY. Well, that thought had certainly occurred to me, but you must remember, Mr. Chairman, that with the corn program being what it is with the target price guaranteeing an efficiency payment under the present farm bill that they may not be concerned about what the price might be.

Senator MELCHER. I don't think that's true. I have never found any farmer that wasn't concerned about what the price of his commodity was, because he really believed and strongly feels that he would want to get the price out of the market place and not out of the check that's sent out of the Treasury.

Because they have some feeling that they're worthwhile and that the commodity that they produce is needed somewhere, that they're not just producing to get a government check.

So, I think they are going to feel rather strongly that they would like to see corn prices improve too.

By the way, what is the projected—is there a projected improvement for corn price for the 1988 crop and how much?

Mr. WEBER. I am not exactly—let me look here. We are projecting prices for corn in 1987-88 at $1.65 to $1.85. For 1988 our low side continues to be $1.65 but the high side of the range is $2.

Senator MELCHER. That is for the 1988 crop?

Mr. WEBER. Yes.

Senator MELCHER. That is another broad range, a $1.65 to $2. What did you project it at as of January 1?

Mr. WEBER. I cannot tell you. I don't know that at this point.

Senator MELCHER. Should we get to the point to where we use cash to run EEP or not?

Mr. KAY. Well, that would remain to be seen, Mr. Chairman. As long as we have operated the program as successfully as it has been operated up to now using commodities certificates, it would be to our advantage, I think, to continue to run that program. That would certainly be an option.

But as long as we have commodities to use, it certainly would be a better option than to use cash outlays.

Mr. HERTZ. Mr. Chairman, I might comment, too, that in issuing the certificate, we do it in mind of the CCC inventory being the back-up collateral, the Farmer Owned Reserve, the grain that's out there, that is—that the certificate can be exchanged for.

And if those resources would drop to a certain level and that would have more certificates out than what they could exchange for, then we would have to stop using certificates.

But until that point in time, I would certainly think we would continue.

Senator MELCHER. Duane, I haven't forgotten about you. Because your very brief testimony here doesn't really tell us enough about your own views.

While wheat has been used in a high percentage of both title I and title II programs over the last year, isn't it true that title II has been diminished? Am I wrong on that? It seems to me that we have been sort of losing ground on title II. Have we not?

Dr. ACKER. Well, certainly, Mr. Chairman, the fiscal year 1989 budget request calls for a lower level of tonnage than was shipped in fiscal year 1987.

There are several main issues here. I start with number one. Within the budget agreement, between the administration and Congress, the total 150 account or the foreign affairs program—but elsewhere in the Federal budget—some decrease was absorbed by each of the programs.

Secondly, as we compare fiscal year 1989 with fiscal year 1987, there was about 2,000 metric tons of wheat for the Philippines in the fiscal year 1987 figure.

That is now being accommodated elsewhere through, I believe, the Export Enhancement Program.

Third, there are some increases in commodity prices anticipated for fiscal year 1989. Yes, there is a decrease anticipated for the tonnage in fiscal year 1989.

Senator MELCHER. I would like to get back to that, but for now I would like to defer to Senator Conrad, so that he may continue his questioning.

Senator CONRAD. Thank you, Mr. Chairman.

I want to go back to the questions that I was asking before we were called to a vote. Is there an estimate of the increase in wheat prices in the coming year? What is your crystal ball telling you about wheat prices in the next year?

Mr. HERTZ. Senator Conrad, very definitely, there is an increase in the outlook for prices for the next year. And as an average, we probably would be projecting—well, in a range, I guess, between $2.80 and $3.20.

Senator CONRAD. And how much of an increase does that represent on a bushel basis?

Mr. HERTZ. I believe our projections last year were $2.65.

Senator CONRAD. So, we're talking about the potential for a 55 cent a bushel increase. Is weather a key factor in the difference between the $2.80 and $3.20 in that difference? Is that the key factor?

Mr. HERTZ. I believe, Senator, there are many variables and, certainly, weather would be one of them. I think the Export Enhancement Program would be one of them.

Senator CONRAD. If we have continued dry conditions in the Upper Midwest, I assume that would make quite a difference in the price?

Mr. WEBER. That would certainly move you toward the higher estimate, yes.

Senator CONRAD. That would put prices in the higher range of the estimate. So, now, we'd be talking about maybe 50 cents a bushel more.

Let me go back to the question I was asking earlier, because I am getting asked this repeatedly. And let me just tell you the way it is put to me:

"Senator, we're now selling out of the CCC stocks"—what are we selling most recently, 20 million bushels a month? Is that still the range or where are we?

Mr. WEBER. No, it's not nearly that high, Senator. Last week it was only about 1 million bushels.

Senator CONRAD. How long ago were we at the 20 million level?

Mr. WEBER. It's been several weeks, but——

Senator CONRAD. How about March and April. What were we selling?

Mr. WEBER. Fifteen to twenty.

Senator CONRAD. And the next thing people say to me is: "Okay, the next thing is we've got to call up the Farmer Owned Reserve." We're going from, what, 450 million bushels to 300 million bushels? Is that roughly accurate?

Mr. HERTZ. As the months continue to unfold, that will be true. If we were to look between now and the first of March next year when we made a decision to not extend the Farmer Owned Reserve in crops other than in 1984, 1985 and 1986 one year extensions, we're talking about 90 billion bushels of FOR.

Senator CONRAD. In that period?

Mr. HERTZ. Yes.

Senator CONRAD. Well, the point they are making is we've got to call up the Farmer Owned Reserve and then if there is a subsequent price move during this period, the people who are going to get the benefit of that price move, would be either the Government, if it's still holding title or the grain trade if title is in their hands.

Why is that not an accurate statement?

Mr. HERTZ. Well, number one, I don't think the grain trade, if they buy grain are going to sit on it waiting for the prices to go. They'll lock in a profit and merchandise the grain.

I don't believe that if—we might expect some forfeitures from the 1986 crop. I don't believe that that grain is going to stay in the commercial warehouse that long, that it's going to be a real price benefit.

I mean, unless you're talking about a total drought, disaster and, you know——

Senator CONRAD. If we had a serious drought, who would be the beneficiary in terms of the price to the extent the Farmer Owned Reserve grain is called up?

Mr. HERTZ. I don't know that I could answer that, Senator. I would have to think that certainly not the farmer, because if it's a drought, he doesn't have grain to sell.

Senator CONRAD. Well, that they've figured out. And as you know, Milt, it is a very sensitive item out there. That is exactly the conclusion that they've come to, that it certainly won't be the farmer that's a beneficiary, somebody else will.

They feel they've taken the hit and now their in a situation where there might be some benefit and they are not going to get the benefit.

What do you say to people who feel very strongly that they have been subjected to a set of economic forces that have been very, very destructive. Now there's some potential for some price movement and they aren't going to get the benefit.

Mr. HERTZ. Senator, I would respond this way that if they're looking at a price gain or an advantage of the grain that's in the Farmer Owned Reserve, that has a statutory sales policy that would make that noncompetitive, I think, even in a severe drought.

If a farmer were to look at possibly gambling, I imagine he could use a commodity certificate and exchange it for the grain that's in the Farmer Owned Reserve that's at the current market price and hold it anticipating a price rise. That would have to be his judgment.

Senator CONRAD. So, the total answer to those who make the point that prices will rise is that they ought to use certs to hedge this market if that's what their belief is.

Mr. HERTZ. Well, they would use the certificates to exchange for the grain that they have in the Reserve. And it would become prestocked to them, then, and they could merchandise it however and whenever they chose.

Senator CONRAD. We have a chart about exports and the volume numbers look pretty good. If we are looking at this from an overall standpoint, the value numbers are troubling.

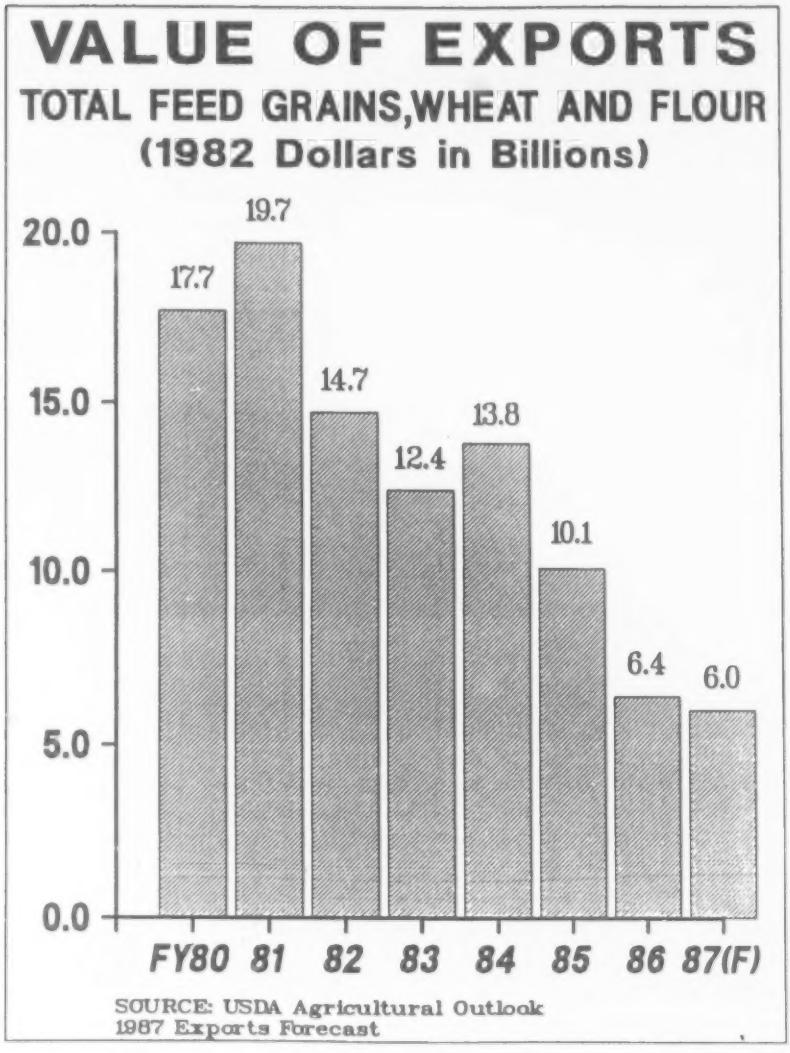
This chart shows a value of exports, wheat and flour, expressed in 1982 dollars, so that we're taking out the inflationary factor.

And you look at this and the value of our exports—it is a pretty troubling trend.

Now, if we had 1988 out here, I would guess that would show a pretty good up-tick given strengthening price and increased volume. I would guess that export values show a pretty good up-tick. Again, expressed in 1982 dollars, I would guess it is still not very encouraging in terms of the overall trend.

What is our strategy for increasing the value of our exports? What is the overall strategy? If we are looking at this as a business enterprise, we would be interested not only in the volume of what we sell, but we would be interested in its value, because that is the bottom line.

[The chart follows:]


VALUE OF EXPORTS
TOTAL FEED GRAINS,WHEAT AND FLOUR
(1982 Dollars in Billions)
20.0
15.0
10.0
5.0
0.0
17.7
19.7
14.7
12.4
13.8
10.1
6.4
6.0
FY80
81
82
83
84
85
86
87(F)
SOURCE: USDA Agricultural Outlook
1987 Exports Forecast

Mr. KAY. You have to recognize, Senator, there are some macroeconomic factors over which we have no control.

Senator CONRAD. Exactly.

Mr. KAY. The value of the dollar.

Senator CONRAD. Right.

Mr. KAY. Plus the fact that there are lower prices now on commodities than there were back in 1982, as guaranteed under the arbitrary——

Senator CONRAD. I am not holding you responsible for this. I think the macroeconomics is exactly what I am trying to get at.

Mr. KAY. There is a movement, of which I am very supportive, to concentrate on high value products, processed products, which are now running neck and neck with bulk commodities.

And over the years when we were in a declining posture on exports, it's interesting to note that the high value products stayed pretty level. It was the bulk commodities that took the dive.

And that, I guess, can go either way. My feeling is that in the future, as economies around the world get stronger, you're going to have more of an emphasis on consumer projects and commodities and intermediate type processed commodities.

So, I think that one of the things that we can do to get the value up is to export more high value processed commodities as well as our bulk commodities.

Senator CONRAD. Well, the point I wanted to make here is that it's our macroeconomic policy that needs some very serious review in terms of our overall agricultural policy.

And the point I wanted to make is just this—a policy of massive increases in debt and deficits that keeps our real interest rates high, which is the policy that we have had over the last 8 years, increases the value of the dollar which collapses our ability to export, collapses our export values.

As a result, on an overall basis, we're out there in the dumper. We have to convince, I think, the various segments of our economy that we really have to do something about the underlying problem of the deficit.

Now, we look at the problem here. I was asking earlier about the prices, 1982-83, 1983-84, when we had carryover stocks on a world basis at about the level we have now versus the price that we're looking at here, we're looking at a 50 to 60 cent bushel difference.

Again, if we look at the export values and unless we have some strategy to deal with the macroeconomic problems that we confront, it is hard for me to see how we come out of this.

Mr. KAY. Well, Senator, I think you have to keep in mind that you have to make a choice whether or not you would rather have 20 percent inflation and high interest rates or whether we go through the adjustment period that we have when inflation has come down to 3 or 4 percent. Interest rates have come down and——

Senator CONRAD. No, not real rates. Real rates have gone up dramatically.

Mr. KAY. Well, Senator, we won't argue that. But we have gone through an adjustment period and we're coming out of that now. And we are on the way to recovery.

You have to recognize, too, that during some years when our exports had you, had many importing countries that had economic recessions. And you go back to 1981-82, OPEC was riding high, wide and handsome. The price of oil was sky-high. And some of those countries spent money like drunken sailors, importing processed goods, importing bulk materials. Improving the diets of their people.

But when the price of oil dropped and the cartel broke up, then those countries stopped importing and it was factors like these that caused the problems that we've talked about.

Those are microeconomic problems too.

And we believe now that the economies around the world are showing more stability and more improvement.

When that happens, the first thing you are going to do is improve the diets of their people and, consequently, we believe we've been through a long dry spell, that we see light at the end of the tunnel as not just the freight train coming in the other direction.

Senator CONRAD. All right, but I would like to add the parenthetical comment that I'm not at all convinced that the choice was either 20-percent inflation or running up massive deficits.

I, personally, don't believe that was the choice we faced, but that's the choice we made—to have these massive deficits. I think it has hurt us terribly in the commodity dependent areas.

Let me ask one final question Mr. Chairman and then I will end. Has there been a delay in the issuance of PIC certificates? We're hearing that there's been a several week delay in the issuance of PIC certificates.

We're getting that from the field. Is there any reason to believe that's correct?

Mr. HERTZ. Not to my knowledge, Senator, we were scheduled to make the second half of the advanced deficiency payments with certificates dated March 16 and to my knowledge, although it's only a couple of days past——

Senator MELCHER. March 16?

Mr. HERTZ. I'm not aware that there's been any problems in their issuance.

Senator MELCHER. Did you say March 16?

Mr. HERTZ. May 16, I'm sorry.

Senator CONRAD. So you're saying that they were issued on time.

Mr. HERTZ. Yes. And there again—this—as we go into the development of our computer system and ESCS, the certificates will be issued out of each individual county.

So we are not reliant on the program that we used before in having them all printed in Kansas City and then having them distributed.

Senator CONRAD. All right. Thank you Mr. Chairman.

Senator MELCHER. Thank you, again.

Duane, I want to go back to your feeling that for this fiscal year that we are not going to make the subminimum of 1.425 million metric tons, or are we going to make that easily for PVO's and——

Dr. ACKER. Mr. Chairman, yes, and Senator, I would like to ask Jeanne Markunas of our Program Staff to join me up here. Jeanne helped me in preparing for this testimony and I may refer to her for some assistance.

But, yes, we do expect to meet this minimum in this fiscal year—the minimum requirement is 1.425 metric tons to PVO's and the World Food Program together.

At the present time we're about 129,000 metric tons short in the approvals that have been made, but we have on the table requests for 132,000 metric tons. We expect, with these proposals, to meet the requirement.

Senator MELCHER. We have a 10 percent monetization requirement for this fiscal year under title II. Are you going to make that?

Dr. ACKER. No, we will not make that. At the present time we're at 5.6 percent with a couple of proposals that are with us now and are under review. It could get as high as 6 percent for fiscal year 1988.

You recall, of course, Senator, the bill passed in December of 1987 and the PVO's needed some time to gear up additional proposals, and they're working hard at that. We believe that we'll be at about 6 percent.

Senator MELCHER. Well, don't you have quite a few monetization proposals before you right now?

Dr. ACKER. I'm going to ask Ms. Markunas to respond in terms of the proposals that are before us right now on monetization.

Ms. MARKUNAS. Senator, we have on record five proposals that are under consideration at the moment. In fact, one of them for Ghana was just approved last week, but as you are aware they are complicated programs to develop and review.

We expect that those five will probably be approved by the end of the year.

Senator MELCHER. Well, I'm not aware that it's so complicated. Maybe you ought to enlighten me just a little bit. Why should I be aware that it's so complicated to approve them?

Ms. MARKUNAS. I say complicated in comparison to the traditional title II free distribution programs in setting up systems within countries. Institutional capacity on the part of the PVO's to be able to administer sales and the proceeds is somewhat more difficult than just a free distribution program.

Senator MELCHER. Well, wouldn't 108 programs count toward this?

Ms. MARKUNAS. Not to the best of my knowledge. They are separate authorities and are counted separately.

Senator MELCHER. Oh, I see. And you don't handle 108 applications then?

Ms. MARKUNAS. They are handled through the Food for Peace office, yes.

Senator MELCHER. But you don't personally.

Ms. MARKUNAS. I don't personally, no.

Senator MELCHER. That's under title I.

Ms. MARKUNAS. Correct.

Senator MELCHER. Well, do you think you're only going to make 6 percent then? Is that right? It isn't very much.

Dr. ACKER. I might mention, Senator, that the monetization requirement was—has been at 5 percent and the requirement was moved in December of 1987 in—I believe in the continuing resolution—at least in legislation—part way into the fiscal 1988 year.

And so that, plus the time necessary for these additional proposals to come forward from cooperating sponsors may have delayed implementation. I make no judgment as to whether 6 percent is an adequate level.

But I would simply observe that, considering the time which remained in the fiscal year, going from 5 to 6 percent does represent some progress.

Senator MELCHER. Well, it's 20 percent better than 5, but it seems to be 88 percent worse than 10—or 80 percent—not 88 percent—80 percent worse than 10. We would like to work with you on what the difficulties are. I hate to hear that it's quite complicated.

Dr. ACKER. Why—let me say, Senator, I think that there's much interest in the monetization issue. There is certainly desire and interest on the part of the cooperatives and PVO's.

There is considerable interest in the Federal agencies involved, as Ms. Markunas mentioned. I believe that we need to firm the monitoring and the guidelines so that we can move forward with, shall I say, a degree of security. It's my understanding that there are some guidelines—

Ms. MARKUNAS. Yes. The guidelines have gone to the field.

But in addition to that we have developed a comprehensive handbook to help not only AID staff but the PVO and Cooperative staff to develop and implement programs. We hope that that, in addition to the handbook, meetings both in Washington and overseas to further educate USAID mission staff and potential cooperating sponsors, will allow us to meet the 10 percent level in 1989.

Senator MELCHER. I forget who testified that there would have been the sale to India. Was that under Export Enhancement Program?

Mr. KAY. Yes, Senator, we did have an Export Enhancement Program for a million metric tons of wheat to India. Yes, sir.

Senator MELCHER. Why is it that India finds that, as perhaps other countries find, that Export Enhancement Program has been more attractive than title I?

Mr. KAY. I have not talked with the Indians, Senator, but I'll give you my opinion about that.

Several countries have mentioned the fact that when they buy wheat under the Export Enhancement Program, accompanied by GSM-102, that that's easier for them, and cheaper for them, than buying wheat under Public Law 480 for less than 20 years when they have to pay the full commercial price for the wheat under Public Law 480.

Now, in the case of India, India did not receive any credit. They paid cash for their wheat, so it would not represent their findings.

But in the case of India, they are very sensitive, Senator, about accepting any aid from anybody and they absolutely refuse to talk about Public Law 480.

Senator MELCHER. Have you made any headway with Mexico and is that their attitude too, they don't want to talk about Public Law 480 either? They want to talk about——

Mr. KAY. Mexico——

Senator MELCHER. Direct sales——

Mr. KAY. Mexico still prefers direct sales so they will come into the Export Enhancement Program for wheat and we have sold

wheat to them under the Export Enhancement Program. And they have been very happy with the results of that. We, of course, as you know, have also made——

Senator MELCHER. How much have you sold, Tom?

Mr. KAY. We made 800,000 tons available for Mexico and I believe they've bought about half of it so far, Senator.

I'll have to check those figures to make sure they're right.

Senator MELCHER. Let's go back to your chart of 1981–82. Don't you have a chart there of exports of wheat?

What one did you hold up, Tom?

Mr. KAY. The chart I brought with me, Senator, that's mine.

Senator MELCHER. Well maybe you just mentioned it in your—let's hold that one up. This is in dollars—but where is it in tons?

Mr. KAY. The one you had up there was in tons.

Senator MELCHER. You referred to it when you said 1987–88—that's the current fiscal year, it's the current crop-year.

Mr. KAY. Current marketing——

Senator MELCHER. Current marketing year. You said it's at 43.5, the highest since—what was it 1981——

Mr. KAY. 1981–82. Yes, sir.

Senator MELCHER. Well, was that 48?

Mr. KAY. Forty-eight.

Senator MELCHER. Million tons?

Mr. KAY. Right.

Senator MELCHER. And when did the grain embargo occur? Wasn't that 1980?

Mr. KAY. 1980. Yes, sir.

Senator MELCHER. So, despite all the rhetoric we've heard in 1980, 1981, 1982 about how the grain embargo had sort of creamed exports, that was a little bit misplaced rhetoric at that time wasn't it?

Mr. KAY. Well, you have to understand, Senator, that it was a partial embargo, that which was committed in the long-term grain agreement was fulfilled. But the important thing is that many contracts over and above the minimum amounts required in the LTA were canceled.

And we believe that had it not been for the embargo that we would have been able to keep 70 percent of the Soviet market, whereas we fell after that, down around 17 percent, and have gradually been building our way back up to the market share we had of the Soviet market prior to the embargo.

Senator MELCHER. Well, I agree with that. I agree with it completely and so the 1981–82 record of 48 million metric tons would have probably been about 52–54 million metric tons.

And what that really projected was a steady climb in exports in wheat that we had during the 1970's.

Mr. KAY. That's right.

Senator MELCHER. And so what we've seen since then has been much more damaging than anything we can comprehend because that would have continued to climb.

Mr. KAY. I believe it would.

Senator MELCHER. If we would have followed the same policies.

Mr. KAY. I believe it would. I believe they would have——

Senator MELCHER. And the policies that broke it off—well, I think the grain embargo was ill-advised by President Carter.

The policies that really broke it off were other policies followed by this administration during 1981, 1982, 1983, 1984, 1985—and principally those were—since you don't want to say it, Tom, I'll say it—was a policy invoked by the State Department that looked at every sale or every donation on a political basis.

And tried to accomplish through food sales or food aid a political goal rather than a goal of merchandizing the wheat that we have here and that we only produce in the quantities we produce it for export.

What I tried to get you to say, or all three of you to say earlier, was, there was a change in policy beginning late last year and extending now through, so far, this year, and I hope on throughout the year.

The Department of Agriculture under Secretary Lyng is saying to the State Department, "We've got a goal here and we're going to start meeting it, and that is to increase the exports of wheat and other agricultural commodities."

So far he has had some success and I applaud that. But that came about because he became the spokesman rather than the State Department on what we're going to do in export.

Glad to hear you say that you got some minimal sale to Mexico but that 1981-1982-1983 figure was around a million tons and could have grown rather than diminished. You still haven't gotten it back. I think I'm right on that.

It was about 1 million tons, you could depend upon it. Right?

Mr. KAY. That is correct.

Senator MELCHER. And it should have grown rather than broken off to nothing for a couple of years or maybe more. Here, now, we're just beginning to get it back.

The Philippines is another case. We broke that off, I believe we always had 400,000 to 500,000 tons sold there, but the million tons that was usual broke off and now you got that back. Is that correct?

Mr. KAY. Correct, sir. Yes.

Senator MELCHER. That's a combination of both EEP and Public Law 480, is it not?

Mr. KAY. We used a combination Public Law 480 and EEP, yes, sir.

Senator MELCHER. And how about Indonesia?

Mr. KAY. Well——

Senator MELCHER. They take 5 million tons of wheat every year, year in and year out. How much of that have we got?

Mr. KAY. I don't recall our selling any to Indonesia, Senator.

Senator MELCHER. I'm told that they mill 5 million tons of wheat year in and year out. Am I wrong? I don't mean just consumed there. I mean going to those wheat millers in Indonesia, much of which is exported. I think they use about 2½ million tons domestically, maybe just 2. But they export the rest. I'm just wondering who's selling to those millers.

Mr. KAY. We do have a team going on the—AID and the development missions, Senator, to Indonesia.

Senator MELCHER. Next week, right?

Mr. KAY. Next week. Yes, sir.

Senator MELCHER. Congratulations. Are they in Manila today?

Mr. KAY. Yes, sir.

Senator MELCHER. All this week the teams are in Manila and then a different team will be in Indonesia next week?

Mr. KAY. They'll be having dinner with Minister Domingos right now, I guess. Maybe they've gone home by now.

Senator MELCHER. What does this mean now? 441,000 tons? Your World Agricultural Outlook Board figures for Indonesia is 441,000 tons. Is this all wheat—yes, it's wheat.

That's for last year and, so far up to April 14 of this year, which is almost—we're almost through the marketing year—there's only 200,000.

I hope something comes of that because I just visited with some of the Indonesian people and maybe my figures are high but I was told by them that they mill 5 million tons of wheat a year. Is that wrong?

Mr. KAY. As you know, I went to Indonesia with the Secretary earlier this year and we certainly did speak to them about the prospects and we'll certainly follow it up with our team.

Senator MELCHER. And I'm not sure whether you said they would have been given access to EEP or not.

Mr. KAY. They have not. No, sir.

Senator MELCHER. Do you intend to?

Mr. KAY. We'll examine the situation and determine the source of their supply.

Senator MELCHER. Well, my theory is that we help all wheat producing countries, Australia and Canada in particular, when we get rid of our surplus and——

Mr. KAY. Well, I keep telling too, Senator, and sometimes they disagree with me.

Senator MELCHER. Well, some of us, very interested in wheat, visited with Australia and New Zealand, as well as the Philippines, at the first of the year and my feeling was that they agreed because they had to agree. I don't mean by coercion, I mean that it's just simple common sense that as long as we have a heavy surplus overhanging the market that world prices simply are not going to improve and the quicker that we got rid of our surplus, the better off they would be. And at that point, when you reach that point in the discussion, they seem to agree.

I'm not going to speak for the Australians or the New Zealanders on it but it seemed to me they did agree that EEP, to get rid of the surplus, is a very fine tool.

But I believe that there is nothing different—Export Enhancement Program is working now to reduce the surplus. As long as it does, fine. But these other programs must not be discounted or downgraded, they must expand too.

And I hope that we set the tone here in Congress for not a contraction of title II or not a contraction of 416, but an expansion of both and that also have a rather broad usage of what we call section 108.

Now if there are some of the amendments that are needed for any of these programs, we would like to know about it. We're in the business of amending laws and we are not adverse to doing it.

And this committee, I think you'll find us extremely cooperative as it has been over the past several years, in moving and expediting any type of amendment or change in the law that will enhance exports.

So there's—if it's necessary, tell us. And you can tell us without clearing it with OMB I think. [Laughter.]

And then we'll help you clear it with OMB. One of the reasons some people might think that exports have picked up is because it's an election year. Well there may be something to that. I don't know.

But whatever, we'll take it one year at a time and this is 1988, and this is an election year and we'll try to do everything possible legislatively that we can to broaden exports, particularly in wheat, but not forgetting corn, barley, feed grains, and soybeans.

We're just an open shop here for any type of export enhancement—and I don't mean EEP in this case—but anything we can broaden exports in, we're willing to consider and probably take up.

I feel somewhat encouraged by your projections on the price. That's a rather broad range of $2.80 to $3.20. That's a broad range, but, personally, I had thought that exports had to pick up; and, if so, then we'd shouldn't see $3 wheat average for the 1988 crop.

And your projections now seem to indicate that's right. Well, that's a good step. We need to go beyond that. And I think as wheat comes up, corn is going to come up too. I just think that's the way it works. And other grains will too.

I thank you all very much. We will hear from Pete Myers next week and also producer groups. The subcommittee is adjourned.

[Whereupon, at 12 p.m., the subcommittee recessed, to reconvene at 10:10 a.m., May 25, 1988, in room SR-332, Russell Senate Office Building.]

COMMODITY SITUATION AND OUTLOOK

The Current and Expected World Wheat Demand and the Status of the U.S. Marketing Tools

WEDNESDAY, MAY 25, 1988

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SR-332, Russell Senate Office Building, Hon. John Melcher (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Melcher, Conrad, Daschle, Boschwitz, McConnell, Bond, and Karnes.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. The subcommittee will come to order. This is the second hearing we are having on the question of how much supply of wheat there is in the United States, what are we doing with it, and what are the prospects for next year and the years to come.

The first hearing we heard from administration witnesses who described to us what the current situation is in wheat stocks on hand and what the projection is for disposal of those wheat stocks, mainly in exporting.

Today's hearing is to hear from the Deputy Secretary of Agriculture, Peter Myers, and also from the National Association of Wheat Growers and Millers' National Federation, and U.S. Wheat Associates.

We think between these two hearings we will get a rather balanced view, or an oversight, of just what the situation is from various aspects of not only those who administer the wheat program but also from those who work with the producing groups and processing groups to see just what the picture is.

These first two hearings have been held on wheat in this subcommittee, but we will proceed to other commodities throughout the coming months so that by the end of August we hope to have a rather detailed set of hearings giving us a situation on the various commodities that we produce in large capacity here in the United States.

Senator Daschle, do you have any opening statement?

Senator DASCHLE. No, I do not, Mr. Chairman. Thank you.

Senator MELCHER. All right. We will proceed immediately then with the first witness, Peter Myers, Deputy Secretary, U.S. Department of Agriculture.

We will insert the prepared statements of Senator McConnell and Senator Bond at this point in the hearing record.

[The prepared statements of Senator McConnell and Senator Bond follow:]

PREPARED STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

HEARING ON WHEAT DEMAND—MAY 25, 1988

Mr. Chairman: To begin, I would like to thank the Distinguished Senator from Montana for calling this second hearing to discuss the status of our wheat program in light of the upcoming decisions by USDA. These are important decisions which will have a direct impact on the amount of participation, and hence the effectiveness of our wheat program, as well as our ability to continue to compete on world markets.

By June 1, as we all know, the Secretary of Agriculture will announce the ARP level for wheat. There has been a great deal of discussion focusing on what the appropriate level should be. An ARP set too high would discourage program participation and would reduce the effectiveness of the wheat program in meeting its goals. Additionally, an over-aggressive ARP will encourage production overseas.

Alternatively, an ARP set too low would drive prices down somewhat, a difficult alternative, though some have argued that increased exports would offset losses from lower prices. I think that the fact that this debate is even taking place is an indication that the farm bill is accomplishing its objectives of returning us to competitiveness. It is my personal hope that any changes, especially to a program that is achieving success, be made with caution. In Kentucky we are not usually excited about fixing things that aren't broken.

An important element of the success of the farm bill for wheat has been the use of the Export Enhancement Program. The aggressive use of EEP's for wheat has fueled a boom in the export market, and has allowed our wheat farmers to regain a substantial share of the world market. I encourage USDA to continue their efforts in this area as long as excess surpluses are on hand.

I look forward to the testimony of today's witnesses, and thank the Chairman, again, for calling this hearing.

PREPARED STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Mr. Chairman, I commend you for holding this morning's hearing to discuss the provisions of the 1989 wheat program. Last week we had the opportunity to analyse the supply and demand situation for the 1988 crop. At that hearing, I was pleased to hear that our wheat program seems to be working—government stocks are declining, exports are rebounding and season average farm prices are projected to be above the 1987 crop. Our job, the Administration and Congress, is to maintain this success by implementing farm programs which balance government cost, farm income, production and competitiveness.

It was not too long ago that our competitors were interested in our farm program announcements as they would essentially guarantee them a price for their crop. With the implementation of the Food Security Act of 1985 this has changed. Today, our loan rates no longer prop up world prices. In fact, Deputy Secretary Myers reports in his statement that total acreage planted by our competitors is down 6 percent compared with two years ago. Now, our competitors see loan rates which are once again competitive and hear talk that mandatory set asides will be reduced significantly.

Given the favorable direction of our wheat industry, I would hope that the 1989 wheat program will simply fine tune the provisions mandated by the farm bill. We need to examine the impacts of different acreage reduction levels and what role the EEP and generic certificates will play in the upcoming year.

Mr. Chairman, once again you have assembled a fine group of witnesses and I look forward to hearing their thoughts on the 1989 wheat crop.

STATEMENT OF PETER C. MYERS, DEPUTY SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY ROBERT W. MILTON, AGRICULTURAL STATISTICIAN, ASSISTANT SECRETARY FOR ECONOMICS OFFICE, U.S. DEPARTMENT OF AGRICULTURE; AND BRUCE R. WEBER, GROUP LEADER, ASCS, COMMODITY ANALYSIS DIVISION

Mr. MYERS. Mr. Chairman, I have several people with me, and I am going to ask them to sit at the table. Bob Milton from the Assistant Secretary for Economics Office, and Randy Weber from ASCS. In case I fail to answer all of your questions, I am sure that they can.

As you mentioned, you have looked at some of the projections. I do have a prepared statement that I would submit for the record and I will highlight that statement in the interest of time.

Senator MELCHER. Your entire statement will be made part of the record, Pete, and you may proceed in any way you see fit.

Mr. MYERS. Thank you, sir. It is a pleasure to be here as always with this committee and with you.

WHEAT MARKET SITUATION

Looking at the overall wheat market situation, I would not go into the numbers because they are in my written statement. But I would say that U.S. loan rates are no longer propping up world prices, and consequently the total acreage planted to wheat by competitors is down 6 percent compared with 2 years ago. The European Community is the glaring exception to that mainly because their intervention price for wheat in May is about $6 a bushel. Having just come back from looking at their wheat crop, I am convinced that they are excellent wheat farmers, but the reason is they have the incentive to add a lot of inputs.

We have had an increase in exports, and the United States has captured virtually all the 20-million-ton increase in world wheat trade over the last two seasons. The decline in the value of the dollar has benefited our wheat exports, and lower foreign production played a part, but the Food Security Act of 1985 can also claim credit. Lower U.S. prices have also helped to spur domestic food use of wheat. Wheat used for food this marketing year is expected to reach 750 million bushels which is a record.

Thus, our total wheat use, exports plus domestic use, is expected to be 2.7 billion bushels which is also a record. This means that use will exceed production by over 600 million bushels equivalent to the production of 16 million acres.

But all of this has come down from a drawdown of stocks which is, I think, a good situation that we are working our way into to continue to reduce these stocks that have been a burden on the market.

OUTLOOK FOR 1988/89

Total use in the coming marketing year is forecast at 2.6 billion bushels. This figure is 450 million bushels more than projected production, and would result in stocks on June 1, 1989 of 796 million bushels. This level of stocks would be equivalent to only 30 percent of use, the lowest stocks to use ratio since 1974.

Consequently, USDA is projecting wheat prices will average between $2.80 and $3.20 a bushel, compared with $2.55 a bushel this year. Obviously, we have all been following the markets, and the markets are well above that right now for various reasons.

1989 PROGRAM PROSPECTS

Since wheat stocks on June 1, 1989, are now projected to be well below 1 billion bushels, the acreage reduction for the 1989 wheat program cannot be greater than 20 percent. We have, and are continuing to analyze, acreage reduction options ranging from 0 to 20 percent.

A 20-percent ARP compared with a 0-percent ARP would lead to smaller supplies, higher prices, and 100-million-bushel reduction in exports. The analysis also indicates that each 5-percentage-point reduction in the ARP increases Commodity Credit Corporation outlays by roughly $400 million due to increased production, lower prices, greater participation, and higher deficiency payments.

A crucial consideration for the 1989 program is the U.S. role as the major adjuster of world supplies. Over the past 5 years, the United States has idled an average of nearly 23 million acres of wheat land annually. This is equivalent to about 60 percent of the harvested wheat acreage in the European Community. If the United States continues to unilaterally idle land, there will be little incentive for competitors to reform their subsidy programs.

The acreage reduction percentage for the 1989 wheat crop program decisions must be announced by June 1, and they will be based on our best estimates of market conditions in 1988 and 1989.

In addition to the weather, the way in which USDA administers the Export Enhancement Program and other export assistance programs will have a bearing on exports. The management of the Commodity Credit Corporation stocks and the Farmer-Owned Reserve, the issuance of generic commodity certificates, and the exchange of certificates for wheat will also affect U.S. export competitiveness.

FUTURE USE OF EEP PROGRAM

Just briefly, turning to the EEP Program, the future use of the EEP Program, will depend on stock availability and on policy objectives related to the Uruguay Round of the GATT negotiations. Other factors that will influence U.S. wheat prospects during the coming year, as I said earlier, include the value of the dollar, the Soviet long-term agreement, global economic growth rates, and the ability of developing countries to manage heavy debt loads. A lot of uncertainties but things that are close range enough that we can make, I believe, realistic projections. While these uncertainties are numerous, there is every reason to believe that prospects for U.S. wheat farmers are much improved.

Mr. Chairman, that concludes my testimony, and I would be pleased to answer any questions you might have.

[The prepared statement of Mr. Myers, with attachments, follow:]

Statement of Peter C. Myers
Deputy Secretary of Agriculture
before the
Subcommittee on Agriculture, Production
and Stabilization of Prices
Committee on Agriculture, Nutrition and Forestry
United States Senate
May 25, 1988

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before you at this hearing to the discuss the current situation and prospects for the wheat market and the implications for the 1989 wheat program. At the outset, I would like to say that we are very pleased with the turnaround in the U.S. wheat market over the past 2 years. We also recognize that the choice and management of the 1989 program will be very important in sustaining the improvement.

Wheat Market Situation

U.S. carryover stocks of wheat reached a record level of 1.9 billion bushels on June 1, 1986. On June 1 of this year U.S. stocks will be 1.2 billion bushels, down 35 percent from 2 years ago. World wheat stocks will also be smaller, the first decline in 6 years. This year's reversal in global stock accumulation was due to a 2-percent increase in consumption and a 5-percent drop in global production. Smaller crops in the Soviet Union, Canada, and Australia accounted for about three-fourths of the production drop. Weather was partly responsible, but lower world prices also played a role.

U.S. loan rates are no longer propping up world prices and consequently the total acreage planted to wheat by competitors is down 6 percent compared with two years ago. The European Community (EC) is the exception. The EC

intervention price for wheat in May is around $6.00 per bushel. This high support level is the reason why wheat production in Europe has jumped more than 50 percent over the past 10 years.

Exports of U.S. wheat in the 1987/88 marketing year, which ends on May 31, are expected to total 1.6 billion bushels, up 75 percent from 2 years ago, and the second highest level of exports on record. The U.S. share of world wheat trade has grown from 29 percent two years ago to 42 percent this year. This is still below the 45-percent share that we enjoyed in the 1970's, but nevertheless is a remarkable recovery.

The United States has captured virtually all the 20-million-ton increase in world wheat trade over the last two seasons. The decline in the value of the dollar benefited our wheat exports, and lower foreign production played a part, but credit is also attributable to the provisions of the Food Security Act of 1985. Lower levels of price support, access to stocks through commodity certificates, and the Export Enhancement Program (EEP) have made U.S. wheat competitive in the world market. The EEP has accounted for two-thirds of total wheat exports during the current marketing year.

Increased exports to the Soviet Union and China account for most of the increase in U.S. exports this marketing year. U.S. exports to the Soviets are now expected to total 12 million tons, compared with none last year, while exports to China will likely total over 4 million, compared with only minor sales last year.

Lower U.S. prices have also helped to spur domestic food use of wheat. Wheat used for food this marketing year is expected to reach 750 million bushels--a record. Thus, total wheat use--exports plus domestic use--is expected to be 2.7 billion bushels, also a record. This means that use will exceed production by over 600 million bushels, equivalent to the production of 16 million acres; but all of this has come from a drawdown of existing surplus stocks.

Outlook for 1988/89

Although significant production increases are projected for the Soviet Union, Eastern Europe, the EC, and China, world wheat surpluses are expected to continue to decline in 1988/89 as consumption exceeds production by some 15 million tons. World trade is expected to fall 4-5 percent largely because of reduced imports by the Soviet Union.

Based on conditions as of May 1, the U.S. winter wheat crop was estimated at 1.62 billion bushels, with a yield of 40.7 bushels per acre. If realized, this would be the second highest yield on record. The USDA survey showed the biggest production increase in Soft Red Winter wheat, up 23 percent from 1987. Production of Hard Red Winter and White wheat will be down according to the survey. USDA's projection of total wheat production is 2.17 billion bushels, up 3 percent from the 1987 crop.

U.S. exports for 1988/89 are expected to decline about 6 percent while domestic use increases slightly. Total use in the coming marketing year is forecast at 2.6 billion bushels. This figure is 450 million bushels more than

projected production and would result in stocks on June 1, 1989 of 796 million bushels. This level of stocks would be equivalent to only 30 percent of use, the lowest stocks-to-use ratio since 1974. Consequently, USDA is projecting wheat prices will average between $2.80 and $3.20 a bushel, compared with $2.55 a bushel this year.

1989 Program Prospects

Since wheat stocks on June 1, 1989 are now projected to be well below 1 billion bushels, the acreage reduction for the 1989 wheat program cannot be greater than 20 percent. We have analyzed acreage reduction options ranging from 0 to 20 percent. Based on current market projections, our analysis indicates that the maximum 20-percent reduction would result in carryover stocks for the 1989 crop of just under 750 million bushels, or a stocks-to-use ratio of 30 percent. With a 0-percent ARP, stocks would be nearly 950 million bushels.

A 20-percent ARP compared with a 0-percent ARP would lead to smaller supplies, higher prices, and a 100-million-bushel reduction in exports. The analysis also indicates that in the short run, each 5-percentage-point reduction in the ARP increases Commodity Credit Corporation (CCC) outlays by roughly $400 million due to increased production, lower prices, greater participation, and higher deficiency payments. All acreage reduction options analyzed indicated lower total use than the 2.7 billion bushels in 1987 and the 2.6 billion projected for 1988. This is because higher prices during the next year are likely to encourage foreign production and restrict foreign consumption.

A crucial consideration for the 1989 program is the U.S. role as the major adjuster of world supplies. Over the last 5 years, the United States has idled an average of nearly 23 million acres of wheat land annually. This is equivalent to about 60 percent of the harvested wheat acreage in the EC. If the United States continues to unilaterally idle land, there will be little incentive for competitors to reform their subsidy programs.

The acreage reduction percentage for the 1989 wheat program decisions will be based on our best estimates of market conditions in 1988 and 1989. As you know, there are many uncertainties surrounding these estimates. As an example, wheat exports for the current marketing year are estimated at 1.6 billion bushels, up nearly a third from the projection made a year ago. In 1987 the Soviets had a poor wheat crop, and the Europeans also experienced reduced yields. The short-fall was made up by the United States which enjoyed an unexpected boost in exports. Three-fourths of the increase in U.S. wheat exports in the 1987/88 marketing year went to the USSR.

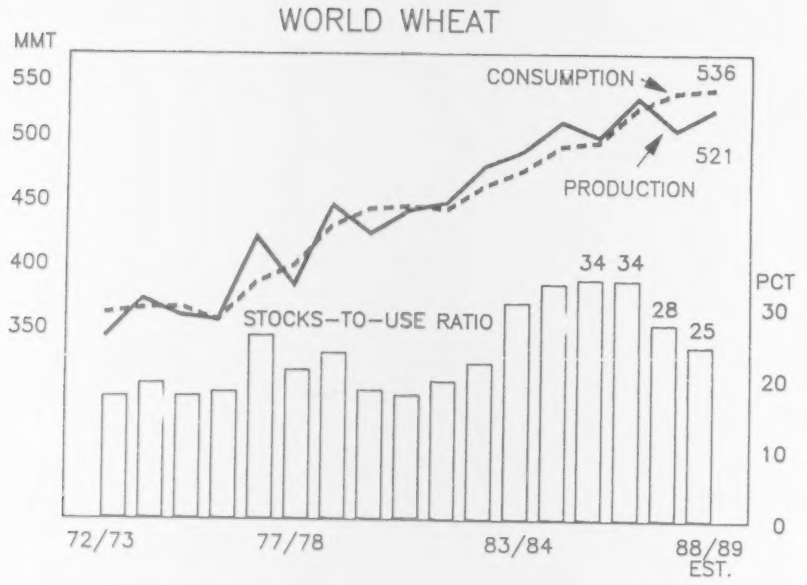
In addition to weather, the way in which USDA administers the EEP and other export assistance programs has a bearing on exports. The management of CCC stocks and the Farmer-Owned Reserve, the issuance of generic commodity certificates, and the exchange of certificates for wheat also will affect U.S. export competitiveness.

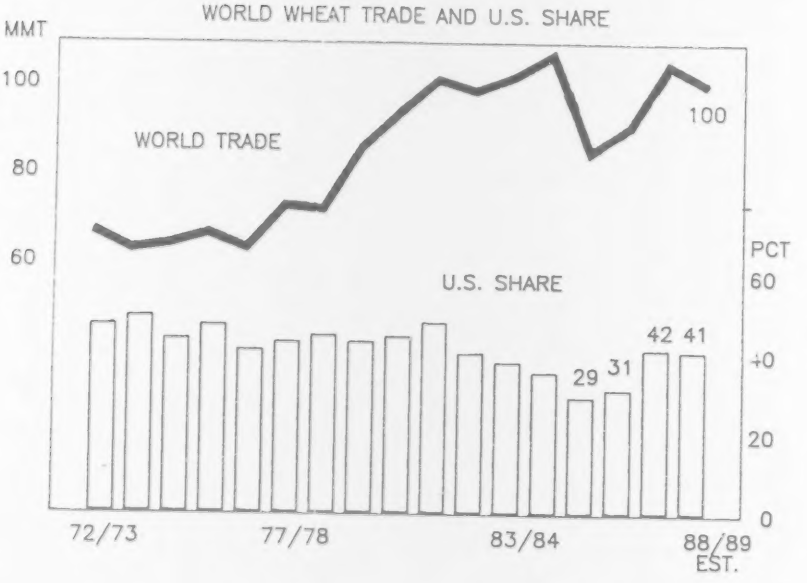
The export surge of the past two years would not have occurred if the market had not had access to CCC stocks. Since CCC first issued generic commodity certificates in May 1986, 1.3 billion bushels of wheat have been exchanged for certificates. Producers have exchanged certificates for 550 million bushels of wheat in so-called "PIK-and-roll" activities and another 700 million bushels of CCC-owned wheat has been made available to the market through certificate exchanges. As a result, CCC wheat stocks on June 1 will be about 250 million bushels, compared with 830 million a year earlier.

The future use of the EEP program will depend on stock availability and on policy objectives related to the Uruguay Round of the GATT negotiations. Other factors that will influence U.S. wheat prospects during the coming year include the value of the dollar, the Soviet Long Term Agreement, global economic growth rates, and the ability of the developing countries to manage heavy debt loads. While the uncertainties are numerous, there is every reason to believe that the prospects for U.S. wheat farmers are much improved.

That concludes my testimony. I would be pleased to respond to any questions you or other Members of the Subcommittee might have.

Graphs and tables follow:


WORLD WHEAT
MMT
550
500
450
400
350
CONSUMPTION
536
521
PRODUCTION
34 34
28
25
STOCKS–TO–USE RATIO
PCT
30
20
10
0
72/73
77/78
83/84
88/89
EST.


WORLD WHEAT TRADE AND U.S. SHARE
MMT
100
80
60
WORLD TRADE
100
U.S. SHARE
PCT
60
40
20
0
42 41
29
31
72/73
77/78
83/84
88/89
EST.

WORLD WHEAT SUPPLY AND USE

Crop Year	Area Harvested	Yield	Production	Trade 1/	Utilization	Ending Stocks	Stocks as % of Util.
	Mil. Hectares	MT	MMT				%
1971	213	1.65	351	52	342	90	26
1972	211	1.63	343	67	358	76	21
1973	217	1.72	373	63	366	83	23
1974	220	1.64	360	64	362	81	23
1975	225	1.58	357	67	351	87	25
1976	233	1.81	421	63	381	128	34
1977	227	1.69	384	73	403	109	27
1978	229	1.95	447	72	421	135	32
1979	228	1.86	425	86	438	121	28
1980	237	1.87	443	94	451	113	25
1981	238	1.88	449	101	450	113	25
1982	237	2.01	477	99	460	130	28
1983	229	2.14	489	102	474	145	31
1984	231	2.22	512	107	493	164	33
1985	229	2.18	500	85	496	168	34
1986	228	2.32	530	91	522	176	34
1987	219	2.29	505	105	534	147	28
1988	NA	NA	528	100	536	132	25

1/ Trade year beginning July 1.

U.S. WHEAT SUPPLY AND USE

Mkt. Year 1/	Beg. Stocks	Area Harvested	Yield	Prod.	Imports	Exports	Domestic Use	
							Feed	Total
	MMT	Mil. Hectares	MT	MMT				
1971	22.4	19.3	2.3	44.1	0.0	16.3	7.1	23.4
1972	26.8	19.1	2.2	42.1	0.0	30.4	5.5	22.3
1973	16.2	21.9	2.1	46.6	0.1	33.1	3.5	20.5
1974	9.3	26.5	1.8	48.5	0.1	27.7	1.1	18.3
1975	11.8	28.1	2.1	57.9	0.1	31.9	1.0	19.7
1976	18.1	28.7	2.0	58.5	0.1	25.9	2.0	20.5
1977	30.3	27.0	2.1	55.7	0.1	30.6	5.3	23.4
1978	32.1	22.9	2.1	48.3	0.0	32.5	4.3	22.8
1979	25.1	25.3	2.3	58.1	0.1	37.4	2.3	21.3
1980	24.5	28.8	2.3	64.8	0.1	41.2	1.6	21.3
1981	26.9	32.6	2.3	75.8	0.1	48.2	3.6	23.1
1982	31.5	31.5	2.4	75.3	0.2	41.1	5.3	24.7
1983	41.2	24.8	2.7	65.9	0.1	38.9	10.2	30.2
1984	38.1	27.1	2.6	70.6	0.3	38.8	11.0	31.4
1985	38.8	26.2	2.5	66.0	0.4	24.9	7.3	28.5
1986	51.8	24.6	2.3	56.9	0.6	27.3	10.5	32.5
1987	49.6	22.6	2.5	57.3	0.4	43.5	7.5	30.2
1988	33.5	NA	NA	59.1	0.4	41.0	6.8	30.5

1/ Marketing year beginning June 1.

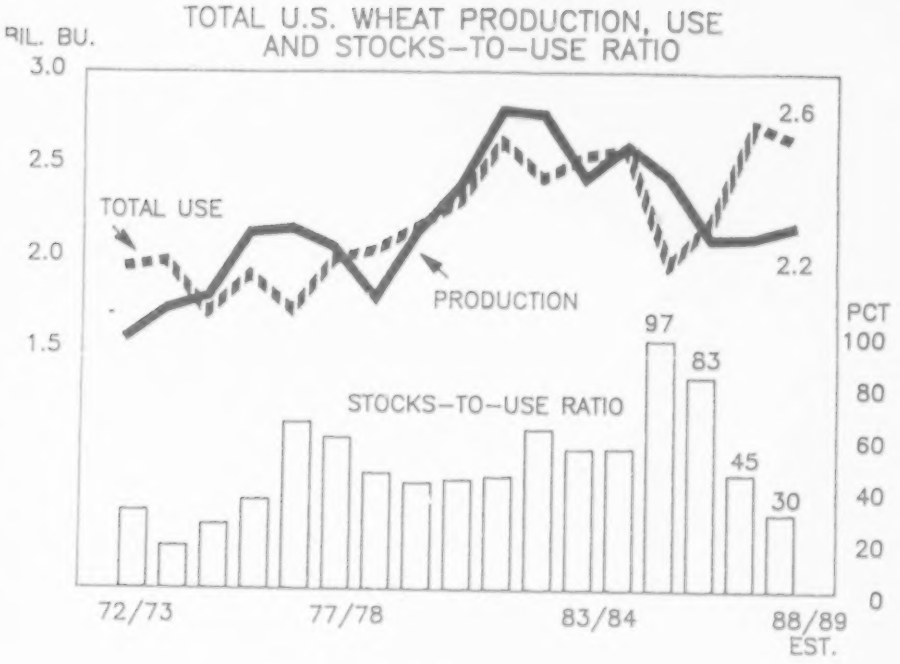
WORLD WHEAT TRADE SHARES

Year 1/	U.S.	Competitors	Argentina	Australia	Canada	E.C.
			Percent			
1971	33	53	3	17	26	8
1972	47	45	5	8	23	8
1973	50	37	2	9	19	8
1974	44	45	3	13	17	11
1975	48	48	5	12	18	13
1976	41	51	9	14	20	8
1977	43	48	4	15	22	7
1978	45	45	5	9	19	12
1979	43	53	6	17	17	12
1980	45	50	4	11	18	17
1981	48	48	4	11	17	16
1982	41	54	4	8	22	17
1983	38	56	10	10	21	15
1984	36	58	8	15	18	17
1985	29	64	7	19	20	18
1986	31	62	5	16	23	18
1987	42	52	5	12	22	14
1988	41	53	6	11	21	16

1/ Trade year beginning July 1.

WORLD WHEAT PRODUCTION

Mkt. Year	World	U.S.	Competitors	Argentina	Australia	Canada	EC-12
			MMT				
1971	351	44	77	6	9	14	48
1972	343	42	76	7	7	15	48
1973	373	47	82	7	12	16	48
1974	360	49	83	6	11	13	53
1975	357	58	83	9	12	17	45
1976	421	59	93	11	12	24	47
1977	384	56	79	6	9	20	45
1978	447	48	103	8	18	21	55
1979	425	58	95	8	16	17	53
1980	443	65	100	8	11	19	62
1981	449	76	108	8	16	25	58
1982	477	75	115	15	9	27	65
1983	489	66	125	13	22	27	64
1984	512	71	136	13	19	21	83
1985	500	66	121	9	16	24	72
1986	530	57	128	9	16	31	72
1987	505	57	120	10	12	26	71
1988	521	59	123	10	13	25	74



U.S. WHEAT EXPORTS

Year 1/	Developing Countries		Industrialized Countries		Centrally Planned Countries		Total
	MMT	Share (%)	MMT	Share (%)	MMT	Share (%)	MMT
1971	12.2	72	4.3	26	0.3	2	16.9
1972	13.4	42	6.7	21	11.7	37	31.8
1973	18.3	59	5.9	19	7.0	22	31.3
1974	19.5	69	6.1	22	2.7	10	28.3
1975	19.6	62	6.7	21	5.5	17	31.7
1976	16.7	64	5.1	19	4.3	17	26.1
1977	19.8	63	6.9	22	4.8	15	31.5
1978	19.1	59	6.9	21	6.3	20	32.3
1979	20.9	56	7.1	19	9.2	25	37.2
1980	21.1	50	7.6	18	13.3	32	41.9
1981	25.2	52	7.5	15	16.0	33	48.8
1982	26.2	66	6.1	15	7.7	19	39.9
1983	25.1	65	5.9	15	7.8	20	38.9
1984	24.1	63	5.2	14	8.8	23	38.1
1985	19.3	77	4.8	19	0.8	3	25.0
1986	21.5	76	4.8	17	2.2	8	28.4
1987	21.0	48	5.0	11	17.5	40	43.5

1/ Trade year beginning July 1.

U.S. Wheat 1/

Item	1986/87	1987/88 (Est.)	1988/89 Projections 2/ May
Area		Million acres	
Planted	72.1	65.8	
Harvested	60.7	55.9	
Yield per harv. acre		Bushels	
	34.4	37.6	
		Million bushels	
Beginning stocks	1,905	1,821	1,231
Production	2,092	2,105	2,170
Supply, total 3/	4,018	3,941	3,416
Food	724	750	775
Seed	84	85	95
Feed and residual	385	275	250
Domestic, total	1,193	1,110	1,120
Exports	1,004	1,600	1,500
Use, total	2,197	2,710	2,620
Ending stocks, total	1,821	1,231	796
Farmer-owned res. 4/	632	475	
CCC inventory	830	250	
Free stocks	359	506	
Outstdg. loan	236	175	
Avg. market price $/bu 5/	2.42	2.55	2.80-3.20

U.S. Wheat by classes: Supply and Disappearance

Year beginning June 1	Hard Winter	Hard Spring	Soft Red	White	Durum	Total
1986/87		Million bushels				
Beginning stocks	1,009	498	79	198	121	1,905
Production	1,018	451	292	232	98	2,092
Supply, total 3/	2,027	956	371	437	226	4,018
Domestic use	622	266	179	77	49	1,193
Exports	432	200	115	175	82	1,004
Use, total	1,054	466	294	252	131	2,197
Ending stocks, total	973	490	77	185	95	1,821
1987/88 (Estimated)		Million bushels				
Beginning stocks	973	490	77	185	95	1,821
Production	1,019	431	348	216	93	2,105
Supply, total 3/	1,991	928	425	404	193	3,941
Domestic use	492	268	205	85	60	1,110
Exports	930	250	165	190	65	1,600
Use, total	1,422	518	370	275	125	2,710
Ending stocks, May	569	410	55	129	68	1,231
Apr.	564	410	55	134	68	1,231

1/ Marketing year beginning June 1. 2/ Reliability calculations at end of report. 3/ Includes imports. 4/ Includes quantities under the farmer-owned reserve and special producer storage loan programs. 5/ Based on monthly marketings only, does not include an allowance for loans outstanding and government purchases. Note: Totals may not add due to rounding.

SOURCE: Reproduced from World Agricultural Supply and Demand Estimates, April and May 1988

WINTER WHEAT

STATE	AREA HARVESTED		YIELD		PRODUCTION		
	1987	IND 1988	1987	IND 1988	1986	1987	IND 1988
	1,000 ACRES		BUSHELS		1,000 BUSHELS		
ALA	170	180	31.0	45.0	5,720	5,270	8,100
ARIZ	44	35	95.0	97.0	4,512	4,180	3,395
ARK	840	950	41.0	44.0	33,415	34,440	41,800
CALIF	480	440	76.0	76.0	45,000	36,480	33,440
COLO	2,500	2,350	37.5	39.0	92,800	93,750	91,650
DEL	48	50	42.0	45.0	1,530	2,016	2,250
FLA	60	45	30.0	29.0	3,100	1,800	1,305
GA	460	460	31.0	35.0	15,400	14,260	16,100
IDAHO	800	790	75.0	70.0	51,850	60,000	55,300
ILL	950	1,120	59.0	57.0	36,080	56,050	63,840
IND	600	700	58.0	53.0	30,100	34,800	37,100
IOWA	30	60	38.0	38.0	1,680	1,140	2,280
KANS	9,900	9,400	37.0	38.0	336,600	366,300	357,200
KY	330	390	49.0	42.0	8,910	16,170	16,380
LA	170	250	31.0	41.0	7,350	5,270	10,250
MD	165	175	49.0	51.0	6,815	8,085	8,925
MICH	400	620	48.0	50.0	30,600	19,200	31,000
MINN	90	64	33.0	32.0	4,290	2,970	2,048
MISS	350	480	36.0	37.0	6,200	12,600	17,760
MO	770	1,400	46.0	47.0	18,810	35,420	65,800
MONT	2,200	2,200	36.0	26.0	64,000	79,200	57,200
NEBR	1,950	2,050	44.0	42.0	76,000	85,800	86,100
NEV	7	7	90.0	90.0	810	630	630
N J	27	26	45.0	45.0	1,290	1,215	1,170
N MEX	340	320	32.0	30.0	10,120	10,880	9,600
N Y	80	90	47.0	47.0	7,595	3,760	4,230
N C	440	450	41.0	42.0	15,180	18,040	18,900
N DAK	185	190	32.0	28.0	13,920	5,920	5,320
OHIO	800	1,040	58.0	55.0	48,300	46,400	57,200
OKLA	4,800	4,900	27.0	37.0	150,800	129,600	181,300
OREG	750	650	66.0	63.0	53,940	49,500	40,950
PA	185	180	43.0	44.0	9,680	7,955	7,920
S C	275	300	38.0	39.0	7,500	10,450	11,700
S DAK--	1,620	1,550	34.0	30.0	57,600	55,080	46,500
TENN	350	380	41.0	41.0	10,725	14,350	15,580
TEX	3,600	3,200	28.0	29.0	120,000	100,800	92,800
UTAH	170	150	43.0	43.0	8,100	7,310	6,450
VA	215	190	45.0	44.0	6,970	9,675	8,360
WASH	1,825	1,650	57.0	54.0	102,900	104,025	89,100
W VA	11	9	45.0	46.0	396	495	414
WIS	60	110	54.0	56.0	7,410	3,240	6,160
WYO	270	225	31.0	30.0	7,500	8,370	6,750
U S	39,317	39,826	39.8	40.7	1,521,498	1,562,896	1,620,257

WHEAT PRODUCTION BY CLASSES, UNITED STATES 1/

YEAR	WINTER			SPRING			TOTAL
	HARD RED	SOFT RED	WHITE	HARD RED	DURUM	WHITE	
	1,000 BUSHELS						
1986	1,017,831	292,450	211,217	451,417	97,907	20,813	2,091,635
1987	1,018,561	347,742	196,593	430,578	92,617	19,109	2,105,200
1988 2/	1,009,555	426,489	184,213				

1/ WHEAT CLASS ESTIMATES ARE BASED ON VARIETY ACREAGE SURVEY DATA COLLECTED AT 5-YEAR INTERVALS FOR ALL WHEAT PRODUCING STATES. THE 5-YEAR VARIETAL SURVEY DATA ARE ADJUSTED AS OTHER VARIETY SURVEY INFORMATION BECOMES AVAILABLE.
2/ INDICATED MAY 1, 1988.

SOURCE:
CROP PRODUCTION,
MAY 1988

AGRICULTURAL STATISTICS BOARD,
NASS, USDA

Letters, questions, and responses follow:

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United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

June 28, 1988

Mr. Peter Myers
Deputy Secretary
U.S. Department of Agriculture
14th and Independence Streets, S.W.
Washington, D.C. 20250

Dear Mr. Myers:

I appreciate your testifying before the Committee on May 25, 1988. Enclosed are additional questions which are being submitted to you for written answers. I would appreciate receiving your answers to the questions by July 19, 1988 so that the hearing record may be printed as soon as possible.

Thank you for your cooperation.

Sincerely,

John Melcher

JOHN MELCHER
Chairman
Subcommittee on Agricultural Production
and Stabilization of Prices

Hearing on World Wheat Demand and the Status of U.S.
Marketing Tools
Senate Agriculture Committee
Questions from Senator Daschle
May 25, 1988

Questions for Deputy Secretary Peter Meyers

- This committee is currently studying the issue of grain quality. I fully support the pilot program which will provide premiums and discounts for wheat. It is a step in the right direction. As we are trying to increase our market share, quality again is of major concern to farmers in South Dakota. Currently criminal fines of up to $75,000 can be assessed to exporters who violate the 1986 Grain Quality Standards Act. I am asking you, whether or not this is an adequate deterent for grain sellers or is there some other way we can provide incentives to exporters to provide clean grain?

  What particular changes would you recommend to acheive better compliance if any?

United States Department of Agriculture
Federal Grain Inspection Service
P.O. Box 96454
Washington, DC
20090-6454

September 22, 1988

Honorable John Melcher
Chairman, Subcommittee on Agricultural
Production and Stabilization of Prices
Committee on Agriculture, Nutrition, and Forestry
United States Senate
Washington, D.C. 20510-6000

Dear Senator Melcher:

Thank you for the opportunity to answer questions from Senator Daschle about incentives for improving the quality of U.S. grain exports.

Senator Daschle correctly identified civil penalties as available sanctions which can be assessed against anyone violating the provisions of Section 13 of the U.S. Grain Standards Act (Act). Civil penalty fines up to $75,000 can be assessed for each violation, in addition to or in lieu of administrative and criminal sanctions provided by the Act.

Administrative sanctions provided under the Act include the refusal of inspection and weighing services which could remove a grain firm from exporting grain because of the requirement for official inspection and weighing services on exporting grain. Also, revocation of the required export registration certificate issued under the Act precludes an elevator from exporting grain.

In addition to the administrative sanctions, certain violations of the Act are subjected to criminal sanctions that upon conviction could result in both imprisonment and fines.

We believe the Act contains adequate penalty provisions to serve as a deterrent for those who would violate the grain quality requirements for export grain. We do not believe additional penalties are needed at this time. Rather we believe that effective detection of violations and immediate application of the appropriate penalties will provide adequate protection for the national export grain system and assure the quality of U.S. grain exports.

We prefer to believe that the greatest potential for positive change in the perception of U.S. grain quality is the commitment of the industry to grain quality; continued evaluation of the standards and procedures applied to U.S. grain; continued communication with foreign buyers to increase their understanding of the U.S. standards and procedures and our understanding of their needs; and continuous, effective monitoring of the national U.S. grain inspection and weighing program to help assure the continued quality of U.S. grain exports.

Sincerely,

D. R. Galliart
Acting Administrator

The Federal Grain Inspection Service is an agency of the United States Department of Agriculture

Senator MELCHER. On June 1 of this year, you expect to be, or there is, since June 1 is virtually here.

Mr. MYERS. We will make that announcement on June 1 what that will be. And then if we have the——

Senator MELCHER. No. Wait a minute. I am getting at first of all what is in CCC June 1. That is virtually here. How much do you have in CCC? 250 million bushels?

Mr. MYERS. Close to that, Mr. Chairman, 275 million bushels.

Senator MELCHER. Right now?

Mr. MYERS. Right now.

Senator MELCHER. And you are figuring you are going to get rid of 25 million bushels in the next week out of CCC?

Mr. MYERS. They are moving.

Senator MELCHER. They are moving. All right. Now how much Farmer-Owned Reserve? I think it is in your statement. Is that about 500 million bushels?

Mr. MYERS. 480 million bushels.

Senator MELCHER. 480. Under what conditions would those come out, would farmers release that?

Mr. MYERS. Well, they can exchange for certificates, but the only way they can cashout is that prices have to reach the price plus interest that they went in at.

Senator MELCHER. And they are not going to do that, are they?

Mr. MYERS. Not unless the price goes up some more. In the nearer term years we have the option to move things out of the loan and extended loan. But the Farmer-Owned Reserve that is in past years——

Senator MELCHER. Of the Farmer-Owned Reserve, this 500 million bushels, 480 million bushels, what would the price be before farmers would be attracted to bring it out of reserve? What would the price have to be?

Mr. MYERS. Well, it depends on the year.

Senator MELCHER. No. I mean right now. In the next few months, 2 or 3 months, this summer.

Mr. MYERS. $4.30 cash per bushel. Cash prices.

Senator MELCHER. $4.30 per bushel. And so that is not going to happen.

Mr. MYERS. I never predict markets, Mr. Chairman.

Senator MELCHER. Well, I do, foolishly probably, but I am not that optimistic. I really am not that optimistic. I like to be optimistic, but I do not think we are going to see cash market for wheat anywhere near that. So under what circumstances would certificates be attractive? There are not any, are there, that would attract farmers to bring this reserve out?

Mr. MYERS. Not from the Farmer-Owned Reserve.

Mr. WEBER. They can come out.

Senator MELCHER. They can do it. But what would be attractive to make it a good business, prudent business judgment to bring it out of the Farmer-Owned Reserve? There would not be any, would there?

Mr. MYERS. Not particularly.

Senator MELCHER. So we have 480 million bushels of wheat surplus sitting in Farmer-Owned Reserve.

Mr. MYERS. But we are mandated to keep so much in reserve, too, Mr. Chairman.

Senator MELCHER. I understand that. What is the minimum?

Mr. MYERS. 300 million bushels of wheat.

Senator MELCHER. 300 million. What would be the circumstances that the Department would want to bring it out of Farmer-Owned Reserve to get down to 300?

Mr. MYERS. Well, we would like to get where prices in the world are attractive as they are now. We would like to reduce the carryover that we have in this country in any way that we can. That is the basic principle that we are trying to working on.

Senator MELCHER. Well, the difference between 300 and 480 is 180 million bushels. Now what would be the circumstances in the market that would cause the Department to want to reduce the Farmer-Owned Reserve down to 300 million bushels this summer? Anything?

Mr. MYERS. If we had dry weather, if there was a bad crop in the rest of the world in some other major producing part of the world. It is hard to look ahead and make an intelligent estimate, but you get a little nervous. Well, we cannot get below the 300.

Senator MELCHER. That is statutory.

Mr. MYERS. Statutory.

Senator MELCHER. So I am just trying to think if there are any circumstances that could happen in the next few months that you would want to bring it out because you would have to pay the $4.30 or whatever it is, would you not?

Mr. MYERS. Well, the farmer would have to take the $4.30 or the price would have to get to that, yes.

Senator MELCHER. You would have to pay it to the farmer, would you not, to take it out?

Mr. MYERS. We could not unless it got that price.

Senator MELCHER. That is right.

Mr. MYERS. That is right.

Senator MELCHER. So that 480 is there. Neither the farmer nor the Department is going to remove that; is that right?

Mr. MYERS. Basically, yes.

Senator MELCHER. And that is going to remain there until there is a market price of around $4.30 per bushel.

Mr. MYERS. Yes, unless he uses certificates to exchange it out.

Senator MELCHER. Well, that is what I am trying to arrive at. What would attract him to want to use certificates? What would attract the farmer to want to use certificates to trade it out?

Mr. MYERS. He would have to look at his storage payments and make his own calculation, and he would have to look at what his local price was and what he could get for certificates.

Senator MELCHER. Well, I will ask the same question.

Mr. MYERS. It would be an individual decision. You know, the closer he was to good transportation would make a difference because the market would be stronger.

Senator MELCHER. I will ask the same question of the National Association of Wheat Growers and see what their attitude is, but I cannot imagine the circumstances that would make that attractive for a farmer. Maybe there are such circumstances, but I will ask them the same question. It just seems to me that there is 480-mil-

lion-bushel surplus sitting there to a certain extent. It may be price depressant, but you are not going to extend those loans, are you?

You know it is in Farmer-Owned Reserve, and as the loans mature——

Mr. MYERS. No, we do not intend to extend any loans other than what we have——

Senator MELCHER. On Farmer-Owned Reserve or anything else?

Mr. MYERS. No.

Senator MELCHER. All right. So at the time that the loans mature then, and you are not willing to extend them, and you do not intend to extend any loan over and above the statutory 300 million bushels?

Mr. MYERS. That is correct because we think it is an excellent opportunity to reduce carryover which will allow prices to continue to strengthen.

Senator MELCHER. You do admit that this projection of price of $2.80 to $3.20 for the 1989 crop is an unusual price projection for the Department; do you not?

Mr. MYERS. In what way, Mr. Chairman?

Senator MELCHER. 40 cents. You are generally down to about—you look at your projections on price. You are generally in the range of a nickel to 15 or 16 cents.

Mr. MYERS. I think there is so much uncertainty, and that is why they have done that. I could turn to the economists and ask Bob what the thinking was on that.

Mr. MILTON. Early in the crop-year such as for the 1988 crop, there is a large uncertainty about the price. The old crop price is, of course, pretty much locked in now. That is the reason you have a narrow range late in the marketing season and a wider range early in the marketing season.

Senator MELCHER. Did you participate in projecting the price around the first of the year?

Mr. MILTON. Myself, not personally, I did not.

Senator MELCHER. Who did?

Mr. MILTON. It is the interagency board that is comprised of ERS, ASCS, FAS, and the World Agricultural Outlook Board.

Senator MELCHER. Well, was that not a price projection in the range of 5 cents to 15 cents average increase for the 1988 crop over the 1987 crop price?

Mr. MILTON. That could very well be. The official USDA estimate had a range of 15 cents in January, but that was for the 1987 crop.

Senator MELCHER. I do not follow you. As I read the projection at the first of the year, it was a range of about a nickel to 15 cents a bushel increase; is that right?

Mr. MILTON. That is correct for the 1987 crop.

Senator MELCHER. Well, that is not anywhere near $3. What was the average 1987 crop?

Mr. MILTON. Average 1987, our projection is $2.55.

Senator MELCHER. So that would be $2.60 to $2.70.

Mr. MILTON. Correct.

Senator MELCHER. Very narrow range, and now it is $2.80 to $3.20. Is not the long and short of this that the Export Enhancement Program was beginning to be used and, therefore, it began to

clear, and you might have a different projection August 1 than you have now of further increase in price for the 1988 crop?

Mr. MYERS. That is all possible, and that is one of the reasons that we can change this figure on the ARP's, Mr. Chairman, and you are exactly right. In fairness to the economists, they were not privy to the knowledge of just how aggressive we were going to be in export enhancement.

Senator MELCHER. What is the Acreage Reduction Program [ARP] announcement for June 1?

Mr. MYERS. Well, we are not going to announce it until June 1. We are still looking at it. I do not know what it is.

Senator MELCHER. The last I looked it was May 25.

Mr. MYERS. Well, we will announce it June 1.

Senator MELCHER. Well, you must have a range. I suppose you are going to tell me it is somewhere between 0 and 20, as your testimony says.

Mr. MYERS. Yes, sir. And you know if I would even make a conjecture, the markets would go one way or the other, or if you would, too. So we will just wait until June 1.

Senator MELCHER. Well, reducing it just to 20 percent, I guess you have it in your testimony.

Mr. MYERS. Yes.

Senator MELCHER. But pinpointing it for me, what does that mean in increased production if it just reduced to 20 percent?

Mr. MYERS. 150 million bushels difference.

Senator MELCHER. 150.

Mr. MYERS. 220 million bushels higher than 1988.

Senator MELCHER. 220 million bushels?

Mr. MYERS. Higher than 1988.

Senator MELCHER. Well, there is still quite a bit of wheat on hand is what I am getting at.

Mr. MYERS. There is a lot of wheat on hand, Mr. Chairman.

Senator MELCHER. And what is that figure going to be June 1 total on hand?

Mr. MYERS. You mean total wheat on hand June 1? 1.231 billion.

Senator MELCHER. Yes. Still quite a bit.

Mr. MYERS. That is in the stocks. But the projection is June 1 of next year it will be down close to 800 million.

Senator MELCHER. All right. Thank you very much. Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman. This hearing is at least in part being held to address marketing tools, and I want to get into that, into a couple of areas briefly if I can, but let me just ask you, Peter, I talked to the Secretary on Monday about the seriousness of the drought that we have in South Dakota and the entire Upper Midwest, and we had made a number of requests, and I asked him on Monday what he could tell me about the status of it.

He thought that within the next 24 hours that you would be getting back to me, and I am wondering if you could share any information with me with regard to the three requests we made: the 0–92, the haying and grazing on set-aside acres, and the emergency feed program?

Mr. MYERS. Well, let me take the last first, Senator. Those are generated from county offices.

Senator DASCHLE. Right.

Mr. MYERS. County requests go to the State and come in to the headquarters where they are looked at by formula.

Senator DASCHLE. Right.

Mr. MYERS. They may be in the process of reviewing by formula. I do not have the information from ASCS on the grazing or the emergency feed program. We will get back to you in the next day or two. You talked to the Secretary, and I do not know what commitments he made to you.

Senator DASCHLE. I asked him if we could get a response. He said I will have one for you in the next 24 to 48 hours. I said who should I talk to, and he suggested that——

Mr. MYERS. OK. When I get back to the office, I will check into it and find out.

Senator DASCHLE. Great.

Mr. MYERS. On 0–92 we are going by planting dates, and it would be dependent on the planting date as to when we would let producers that were prevented from planting back into 0–92 above the 25 percent level that we are roughly working on in every county.

Senator DASCHLE. And you do not know how that might affect the counties most directly affected by the drought in South Dakota?

Mr. MYERS. No. And I would have to look at the planting dates of those counties. But we can do that also.

Senator DASCHLE. OK.

Mr. MYERS. They should know in the counties. They have the authority, and it is not going to take a special act or any provisions or requests. It will be generated at the county office, and they will have the planting date, and they have the authority once that planting date is past to allow the producers. And of course, they would be small grains in your area to back into 0–92 if they were prevented from planting.

They have had some rains in part of the State, but I understand not in all.

Senator DASCHLE. That is right. And the other problem is that even with the rains it is going to take so long to bring the pastures back. They are down to absolutely nothing. Let me ask you one other question and maybe make it more of a rhetorical question.

I know how sensitive it is to address CRP acres in cases of drought, but it really is kind of agonizing to drive down the road and to see these lush CRP acres there, and at the same time as we drive down the road we are hauling our cattle into Nebraska looking for forage.

If there could be some way one could hay and graze that CRP for even a month, it would be tremendously helpful to us. And I only offer that to you. I know what the position of the administration is on that.

Mr. MYERS. It is not only the administration, Senator. The basic principle, as we have said, that unless a dire emergency occurs we would not graze CRP. Because there are, as you well know, and you have worked for it, the wildlife benefits. So it is going to have

be a dire emergency to open up the CRP acres. I can only be honest with you.

The good thing we have going for us is that cow prices are high. I mean cow-calf pairs are bringing $750. I know the producer does not want to sell out, but we are at a good time in the beef cycle. And if he has to cut back on his herd, he surely is not going to be penalized financially.

Senator DASCHLE. What they are doing is selling the calves. They will be selling the calves trying to keep the herd if they can.

Mr. MYERS. Right. Sure.

Senator DASCHLE. But we are moving a whole lot of cattle right now, and hay prices are going up to almost $100 now.

Mr. MYERS. Right.

Senator DASCHLE. And that is awfully tough. It has been a long, hard winter in South Dakota. But you will call today if you can.

Mr. MYERS. I will not promise you today. I will try to get the answers today.

Senator DASCHLE. OK.

Mr. MYERS. I will call you as soon as I have the answers.

Senator DASCHLE. All right. You probably saw the report in the paper yesterday. The GAO really took a shot at TEA. And I want to give you an opportunity to respond if you can to the—I call them alleged abuses. Certainly the GAO would be stronger than that. They would say they are documented abuses of TEA.

TEA was something in concept that I strongly supported in the 1985 farm bill. I am disappointed this early on to see that kind of negative press. Number one, how do you respond to it, and number two, what corrective measures, if any of it is true, and GAO, as you know, has as good a credibility around this place as anybody, how can we address it to avoid the kind of negative reaction we are getting as a result of this report?

Mr. MYERS. OK. Let me say this to you. Most of the abuses that were pointed out have been corrected. The report, of course, as with most GAO reports, has run for 2 years at least, and to my knowledge, all of the abuses have been corrected and some people have been made to reimburse money where it was found that it was not exactly the way it should have been spent under the Targeted Export Assistance Program.

I think I can assure you that it is being well run, and the abuses are being addressed, and that we will answer all of them, as we should. GAO is the watchdog as our own inspector general is, and they point out shortcomings. We have addressed all of the things that they have brought out in the report, and will continue to work to make it a better program.

We are like you. We think it is a good program. It can work well. It was new. We had many different groups coming in to use it; some of whom did not totally understand the rules. But I can assure you that the abuses have been corrected and we will continue to run it in a good manner.

Senator DASCHLE. Are you planning an official response to the GAO report?

Mr. MYERS. Yes.

Senator DASCHLE. And can you submit that to us just as soon as it is made available?

Mr. MYERS. Yes, we will. Normally this is the procedure. Normally they do not put the report out until we have a chance to respond and show what has been corrected, and then you see the balance where the dispute is.

And we will. And as we do respond, we will let you have a copy of the responses.

Senator DASCHLE. Do you have any idea on a timeframe for that?

Mr. MYERS. I really do not.

Senator DASCHLE. In addition to abuses, of course, the GAO reported that it was not being run very competitively. That smaller groups were being isolated in their opportunities to avail themselves of the benefits of TEA. Will you address that concern, too?

Mr. MYERS. I am sure we will. If that was a criticism, we will address it.

Senator DASCHLE. Well, I hope you will.

Mr. MYERS. Oh, we will.

Senator DASCHLE. It is a concern to us. I mean obviously we do not want this simply to be a marketing tool of Sunkist, as important as it ought to be for Sunkist. I do not want them not to have access to it. But I certainly want smaller groups to be able to avail themselves of it as well.

Mr. MYERS. We agree with you.

Senator DASCHLE. Let me ask the second area of questions. It relates to the quality of grain. The reports are still out there that grain quality is a problem. We've established the pilot program which is supposed to be in place now which is to improve our confidence about grain quality.

The fine may be a marginal item for a lot of these major grain companies, but what can you tell us about grain quality? What progress is being made? Is this pilot project working.

Mr. MYERS. The new regulations are working. I think we are making—to me as a former producer, we are making some dramatic gains in grain quality.

Senator DASCHLE. Can we document that in any way?

Mr. MYERS. Yes, I think we can. I cannot personally, but I think FGIS can.

Senator DASCHLE. Could you submit that for the record?

Mr. MYERS. We will. We will do that.

[The information from Mr. Myers follows:]

GRAIN AND OILSEED QUALITY INITIATIVES

Concern over grain quality is shared by the Congress, the Department of Agriculture, and the U.S. grain industry. All three groups have initiated action to improve grain quality. Congress amended the United States Grain Standards Act in 1986 to prohibit: dockage or foreign material once removed from grain being recombined with any grain, and dockage or foreign material from being added to grain. The 1986 amendment also required FGIS to publish a final rule to more accurately describe the level of insect infestation in grain.

To implement the United States Grain Standards Act amendments, the Federal Grain Inspection Service published final rules which: prohibit recombining or adding of foreign material and dockage to grain once such material has been removed from grain (including prohibiting the addition of dust sweepings and binned dust to grain in export elevators at export port locations); prohibit blending one kind of grain with another except to fulfill mixed grain contract terms; permit blending broken corn that contains foreign material with corn provided that the foreign material was not added to the broken corn; permit recombining grain removed from a bin during coring with the same kind of grain; and required recording the

individual components making up "broken corn and foreign materials" in corn and "broken kernels, foreign materials, and other grains" in sorghum on the inspection log for export shipments and in the "Remarks" section of the official inspection certificate for nonexport.

A final rule to more accurately describe the level of insect infestation in grain was published in the June 30, 1987, Federal Register with an effective date of May 1, 1988.

Other grain quality improvement initiatives recently undertaken by FGIS include: reviewing the procedures for the detection and suppression of insect infestation; developing directives which deal with the safe and effective fumigation of railcars, barges, and ships carrying grain; revising the U.S. standards for wheat to require that dockage is certificated to the nearest 0.1 percent; establishing improved procedures for detecting the presence of treated grain in bulk grain marketed for human or animal consumption; tightening the interpretation of soybean damage; developing an improved, centralized quality control program that encompasses all segments of the official inspection system; and tightening the shiplot inspection plan.

Other grain quality initiatives will be considered following receipt of a report from the Office of Technology Assessment (OTA) which is expected to be issued this fiscal year. The OTA is conducting an exhaustive study to compare the U.S. grain marketing and export system with such systems from competing grain exporting countries.

In the current fiscal year FGIS has received foreign complaints on 0.7 percent of the export shiplots, compared with the 3.7 percent of the shiplots in fiscal year 1987.

[Foreign Complaint Summary Data follows:]

***** FOR FGIS DISCUSSION PURPOSES ONLY ***** (1984 - 6/15/88) FOREIGN COMPLAINT SUMMARY DATA

FACTORS	FY 1984 NUMBER	FY 1984 % BY WT.	FY 1985 NUMBER	FY 1985 % BY WT.	FY 1986 NUMBER	FY 1986 % BY WT.	FY 1987 NUMBER	FY 1987 % BY WT.	FY 1988 NUMBER	FY 1988 % BY WT.
EXPORT SHIPLOTS	5,120		4,558		3,769		4,869		3,052	
SHIPLOTS INVOLVED	27	0.5	103	2.2	61	1.6	186	3.7	37	0.7
SHIPS INVOLVED	25		99		52		142		32	
COMPLAINTS	22		71		42		59		20	
WHEAT LOTS INVOLVED	7	0.1	20	1.1	23	1.5	123	7.7	16	1.3
CORN LOTS INVOLVED	11	0.6	34	1.6	11	0.8	23	1.8	3	0.2
SOYBEAN LOTS INVOLVED	7	1.1	44	5.8	21	3.1	15	2.9	4	1.0
WHEAT										
PROTEIN	1	0.01	3	0.1	7	0.2	15	1.2	2	0.0
INFESTATION	-	-	6	0.5	5	1.3	6	5.5	1	0.1
TEST WEIGHT	-	-	1	0.01	-	-	1	1.3	-	-
DOCKAGE	-	-	5	0.3	1	0.1	7	1.3	2	0.7
MOISTURE	-	-	1	0.01	-	-	1	0.2	1	0.0
DAMAGED KERNELS	1	0.2	-	-	-	-	2	0.1	7	0.3
HEAT DAMAGE	2	0.1	1	0.02	3	0.1	-	-	2	0.1
FOREIGN MATERIAL	-	-	4	0.2	2	0.1	7	1.2	-	-
SHRUNKEN & BROKEN	1	0.1	-	-	2	0.2	5	0.9	-	-
TOTAL DEFECTS	-	-	-	-	-	-	-	-	1	0.1
DARK HARD & VITREOUS	-	-	-	-	1	0.1	1	0.2	-	-
WHEAT OF OTHER CLASSES	-	-	1	0.01	1	0.04	1	0.01	-	-
FALLING NUMBER	-	-	-	-	-	-	2	0.07	-	-
DISTINCTLY LOW QUALITY	-	-	-	-	-	-	-	-	1	0.1
ODOR	-	-	-	-	-	-	-	-	-	-
WEIGHT	2	0.1	1	0.04	1	0.2	1	0.01	-	-
CORN										
INFESTATION	-	-	2	0.03	-	-	-	-	-	-
AFLATOXIN	3	0.3	1	0.2	-	-	1	0.0	-	-
HEATING	-	-	4	0.5	4	0.6	-	-	-	-
TEST WEIGHT	-	-	1	0.00	-	-	-	-	-	-
MOISTURE	-	-	1	0.05	6	0.6	-	-	-	-
DAMAGED KERNELS	2	0.1	7	0.6	4	0.3	5	0.7	1	0.2
HEAT DAMAGE	2	0.03	-	-	-	-	1	0.1	-	-
BROKEN CORN & FM	3	0.2	12	0.9	5	0.4	14	1.5	2	0.2
DISTINCTLY LOW QUALITY	-	-	-	-	-	-	-	-	-	-
ODOR	-	-	-	-	-	-	-	-	-	-
WEIGHT	-	-	2	0.2	-	-	-	-	-	-
SOYBEANS										
FREE FATTY ACIDS	-	-	-	-	5	1.1	2	1.6	1	0.1
OIL	-	-	-	-	-	-	-	-	-	-
PROTEIN	-	-	-	-	-	-	-	-	1	0.1
INFESTATION	-	-	1	0.2	-	-	-	-	-	-
HEATING	-	-	-	-	1	0.1	-	-	-	-
TEST WEIGHT	-	-	2	0.4	-	-	-	-	-	-
MOISTURE	-	-	7	0.8	3	0.5	-	-	1	0.3
DAMAGED KERNELS	-	-	21	2.8	12	2.0	5	2.1	-	-
HEAT DAMAGE	-	-	-	-	-	-	-	-	1	0.1
FOREIGN MATERIAL	6	1.0	19	3.8	9	1.6	8	2.6	2	0.3
DISTINCTLY LOW QUALITY	-	-	-	-	-	-	-	-	-	-
ODOR	-	-	-	-	-	-	-	-	1	0.3
WEIGHT	-	-	-	-	1	0.9	-	-	-	-

Mr. MYERS. There have been drastic changes especially the prohibition on adding or recombining dockage and foreign material at elevators, this type of thing. The thing we need to recognize is that in a poor crop-year some of this tightening up of the standards is going to be passed back down to the producer, and the producer is going to have to be aware that when he has a crop that has damage in it, he is going to be hurt a little more.

Senator DASCHLE. Most producers will tell you, as you know, that they already have very tight standards. They are just not applied throughout the system. But why is it?

Mr. MYERS. Well, it is applied through the system.

Senator DASCHLE. You think it is?

Mr. MYERS. Yes, I do.

Senator DASCHLE. But farmers cannot add dirt and dust back.

Mr. MYERS. No, but the elevators cannot add it back either. That has been prohibited in the new regulations. They cannot add it back.

Senator DASCHLE. Are you saying that no dirt and dust can now be added back?

Mr. MYERS. No, no. No, I am not saying that. Nobody, including farmers and grain elevator operators, is permitted to add dockage and foreign material to grain. However, the prohibition against adding binned dust to grain applies only to export elevators.

Senator DASCHLE. Well, why are we allowing that provision?

Mr. MYERS. Because it is dust that was in the grain in the first place, and we have standards that allow that. I mean there are regulations that allow a certain percentage of foreign material and people buy their grain based on these standards.

And if they wanted a very clean grain they could order clean grain. If they wanted No. 1 corn or No. 1 beans they could order it. Invariably they do not. Standards allow them to have a certain amount of foreign matter, depending on what is ordered by the overseas buyer.

Senator DASCHLE. So in other words, if you have good, solid clean grain, and because we do not have an adequate quota of grain that is not necessarily marketed for that export quality level, we then add the dirt and dust back to lower the quality level to make it more marketable?

Mr. MYERS. They cannot bring dockage or foreign material from an outside source and add it, nor can they recombine it once it is cleaned out. They can recirculate dust in the grain. They may have cleaned it out for safety reasons in the flow, the dust especially. They will take it out and they will separate it out. They can add some of that back.

But in terminal elevators, and I am not an expert on this, Senator, so I might want to correct this testimony a little bit when I get done. They cannot add or recombine dockage, foreign material, or binned dust. They can take grain from different storage areas in their facility, blend different qualities of grain to come up to the standard that was ordered and specified. The blending of different qualities of the same grain was specifically allowed by the Grain Quality Improvement Act of 1986. And of course, this is what we in the grain inspection service do. We inspect and weigh the grain in

accordance with the standards and the contract between the parties.

And if there is one bin of clean grain and one bin of grain that has some foreign matter in it, it can be blended to be brought to that tolerance. But it is according to what is ordered. So I share your concern. I would prefer to export the highest quality grain that we could.

But I also share the concern of the producer who may not have that high quality grain to give him the outlet to be able to ship his grain to also. But our buyers, our foreign buyers, should order a higher quality if that is what they want.

Senator DASCHLE. You cannot add dockage back to the grain, can you?

Mr. MYERS. No, you cannot add dockage. You can recombine dust that is in the flow. You cannot add dirt, dockage, foreign material—this type of thing.

Senator DASCHLE. I tell you it is a real——

Mr. MYERS. You cannot add stones and——

Senator DASCHLE. It is a real public relations problem for us.

Mr. MYERS. I agree.

Senator DASCHLE. I am watching this with great interest because I was very hopeful that this new program would at long last allow us to say with some confidence we have taken care of the problem, but the reports just do not go away.

Mr. MYERS. It is improving.

Senator DASCHLE. Well, I hope so. And I would like to see the material that you will be able to provide us and documentation. Because I hope in a year from now we can say it is dramatically improved. But it is a real concern for me.

I have taken more than my time, Mr. Chairman. Thank you.

Senator MELCHER. Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you very much, Mr. Chairman. I would like to follow along with what my good colleague from South Dakota has said about grain quality. This was one of the things that we addressed.

We are very much concerned in our State about reports from foreign buyers of all of the junk that they found in shipments and I commend you for the effort, and I will be interested to see the progress on cleaning up grain because there is nothing more frustrating to a farmer from the Midwest to hear a foreign buyer, and I talked to foreign buyers in places like Shanghai and elsewhere who said we are tired of getting a shipment full of mud and concrete and things that have been added back in.

By the same token, many of our farm leaders in our State have pointed out that the complaints sometimes are from people who do not order the top quality grain and object to dust in the grain, and I share your feeling that if they want the cleanest grain, they are going to have to pay the price.

But this effort to make sure that we deliver what we say we deliver and do not have someone with a backloader dumping a couple of scoops of mud and debris in it is extremely important.

Following up on my call to you the other day to ask you to consider haying and grazing assistance, I commend you on delivering 1 to 3 inches of rain to Missouri. That was the kind of response I do not normally get out of the Federal Government or any government. And we appreciate that.

We also are very pleased with the progress that has been made under the Food Security Act of 1985. We used to see our competitors awaiting the announcement of the prices so they would know what automatic floors they had, and I think the Food Security Act has changed that picture a good deal.

And we hope that we will continue to make progress. And Mr. Chairman, I would like to submit a full statement for the record.

Senator MELCHER. Without objection.

Senator BOND. Thank you.

[The prepared statement of Senator Bond can be found on page 78.]

Mr. MYERS. Could I respond to this quality issue just a second since Senator Bond and Senator Daschle brought it up. The Secretary is also concerned, and we are going to have a commodity quality conference for 2 or 3 days in St. Louis at the end of the month of June, specifically addressing, not only grain quality, but quality of all of our agricultural products.

And to me it indicates our continued concern, and his concern in specificity, about quality of the products that we ship out of our country from our agricultural production.

Senator BOND. What are the dates of that conference?

Mr. MYERS. It is right at the end of June, June 30 and July 1. We would be pleased to have any of you or your staff there.

Senator BOND. We will see if we cannot work that out. Peter, in the reconciliation act, the Secretary was given authority to reduce the basic loan rate by an additional 2 percent in addition to the 5 percent in 1989. Do you think this is going to be necessary? Will we need to reduce the basic loan rate the entire 20 percent?

Mr. MYERS. We have authority to go to 2.06, Senator, and I am sure after we take all the factors in, we will announce it. Now there is a formula based on the average world market price and we can go to that point. I am sure we will try to make our loan as competitive as we can within the law.

Senator BOND. OK. What kind of comments have you received? Has there been any consensus on the request the Department made for comments on the 1989 wheat program?

Mr. MYERS. I have not seen the comments myself so I cannot tell you whether there has been a consensus. Have you looked at any of those, Randy? I will ask Randy Weber to give you a general response.

Mr. WEBER. Senator, we received a total of 83 comments, about half of those from farmers, the other half from State and local farm organizations, and various other entities. Farmer comments were about 40 percent wanting a 20 percent and below ARP with the majority wanting a level above 20 percent. Most of the trade

and farm organization comments were asking for ARP levels below 20 percent, most in the range of 10 or 15 and a few requesting zero.

Senator BOND. All right. Finally we have been doing a lot of talking about the United States-Canada Free-Trade Agreement and United States-Soviet Long-Term Grain Agreement. Did you take account of any of these agreements and their implications in the Department's 1989 assumptions for the wheat crop?

Mr. MYERS. I would say we probably did not take into account the Canadian Free-Trade Agreement, but we would look. I would suspect we did look at the Soviet Long-Term Grain Agreement and the fact that we ultimately will have an agreement with them. We do not know the level on a yearly basis.

Senator BOND. But you assume there would be increased sales?

Mr. MYERS. We assume there would be sales to the Soviets.

Senator BOND. OK. Mr. Chairman, I thank you. Thank you, Peter.

Mr. MYERS. Yes, sir.

Senator MELCHER. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. Last week I raised a question on the price forecast, USDA's predicted price at the farm gate of $2.80 to $3.20. I noticed we are already at $3.40 a bushel in Minneapolis, and given the continuing drought conditions that exist in substantial parts of major growing areas, I am wondering if there has been any new revision to the outlook? If not, when might there be a reestimate if there were continuing dry conditions in major growing parts of the country?

Mr. MYERS. It will be at the next crop report on wheat and when will that be, Bob?

Mr. MILTON. Usually about the 10th of June.

Mr. MYERS. About the 10th of June, Senator.

Senator CONRAD. About the 10th of June would be the next time that there would be a formal review of the price and production outlook?

Mr. MYERS. Price and production. That is right.

Senator CONRAD. There would be no interim review, I take it. You are scheduled to do it at that point and you would not do it earlier?

Mr. MYERS. Because things change. As you well know, over the weekend we have had substantial rain over a large part of the area. So conditions change and we will be gathering the data from that now.

Senator CONRAD. All right. Let me ask you this, with the drought many farmers will experience shortage in feed grains this fall. And obviously, short crops would reduce farm income as well.

It might make sense for USDA to allow farmers to hold their farmer-held reserve grain without storage payments, and without calling their loans until harvest in order to offset some of the effects of the drought.

That would obviously allow farmers to be in a position to be the ones that would profit from any price movement related to the dry conditions. What would USDA's reaction be to that type of proposal?

Mr. MYERS. Well, first I think it is too early to say we are going to have a short crop. I have to tell you that in honesty. We would

always consider something that would help the producers so I would say that is an option. If dry conditions would continue, it is an option we should look at.

Senator CONRAD. OK. When would be the time to make that type of evaluation, whether an option like this or some other one that might be considered?

Mr. MYERS. It depends on the crop. And here again, if it is Spring wheat or Winter wheat, we are going to have to make that decision fairly soon. If it is going to be corn, we have to wait.

Senator CONRAD. You know in our part of the country, I mean——

Mr. MYERS. You are talking about wheat.

Senator CONRAD. Yes. In the near term.

Mr. MYERS. Yes.

Senator CONRAD. I would think that by June 1 we are going to have a pretty good idea out in our part of the country. You get much beyond that, and you are going to have problems.

Mr. MYERS. Well, I would respectfully disagree. I would say the yield could vary even after June 1 on wheat.

Senator CONRAD. What would be your view?

Mr. MYERS. I would say we would have to wait at least 30 and probably 60 days before we could make an intelligent estimate of any real damage unless the drought just continues.

Senator CONRAD. Right.

Mr. MYERS. Now if it continues to deteriorate, that is a different situation. But if you get rain and then there is reports of disease in some parts of the wheat belt, too. We have to look at that. That is what this crop report will do is give us that update on June 10, and we will look at that obviously.

Senator CONRAD. Well, let me go back to when you would see the appropriate time to reevaluate the FOR callup. Obviously we have a callup going on; right?

Mr. MYERS. Right.

Senator CONRAD. What is your projection of how much will be called up by June 10, in the next 30 days, in the next 60 days?

Mr. MYERS. Well, it depends how fast we can take it. As I understand, the transportation systems are a little slow out there so we probably are not going to call this even though technically it has been called. We are not going to issue that request to the farmer to deliver. So there will be some delay because of that.

Senator CONRAD. Well, let me go back to my question. What do you anticipate? How much do you anticipate being called up by June 10 or in the next 30 days, next 60 days?

Mr. MYERS. Well, legally we have called everything that we have issued requests on——

Mr. WEBER. By June 10 it would only be for those loans that mature as of the end of May.

Senator CONRAD. Do you have a calculation of how much?

Mr. WEBER. I do not have it with me, Senator.

Senator CONRAD. Could we get that?

Mr. WEBER. Yes.

Mr. MYERS. We can get it for you.

Senator CONRAD. And could we get a projection on how much would be called up in the 30-day interval, in the 60-day interval?

Maybe June 10 is an appropriate time. Certainly if you plant after June 10 in our part of the country, you are going to have some significant effect on total production.

I guess what we are searching for here is if it has the potential for being an idea that would be helpful to producers we would then need to do it on a basis that is timely so that farmers could benefit from the price increase.

If the Farmer Owned Reserve grain is called up and gone and we make the decision after that, we have already closed the barn door, it will not be much help to the farmers.

Mr. MYERS. We will give you as accurate an analysis as we can, Senator.

Senator CONRAD. Could you also give me what, in your view, would be the key dates for analyzing whether or not it is appropriate to go forward? What would be the time deadlines, and I understand if you are not prepared to do it here.

Mr. MYERS. We will try to give you a range. I do not know that we will give you the specific date.

Senator CONRAD. All right. Yes. That is reasonable. If you give us some idea of what you see as the timeframe.

Mr. MYERS. All right.

[The information from Mr. Myers follows:]

The following table summarizes wheat loans not being extended by maturity month for the Nation, and South Dakota as well as North Dakota. The national percentages should be reasonably close for North and South Dakota quantities also.

SUMMARY OF WHEAT LOANS NOT BEING EXTENDED
BY MATURITY MONTH

1. Quantity As of May 18, 1988: 243.1 mil. bu.

2. Maturities By Month:

Month of Maturity	Percent of Item #1 Quantity
May 31, 1988	43.2
June 30	27.5
July 31	10.2
August 31	5.1
September 30	4.6
October 31	4.4
November 30	1.4
December 31	3.4
January 31, 1989	.2
	100.0

3. Crop Year Breakdown:

Crop Year/Program	Quantity mil. bu.
1987 Regular Loans	134.5
1986 Extended Loans	59.9
1985 Extended Loans	8.1
1981-83 Special Producer Storage Loans	40.6
	243.1

4. Estimated Quantity of North Dakota/South Dakota Loans Not Being Extended:

	Quantity (mil. bu.)
South Dakota	78.6
North Dakota	23.9

ASCS/CAD/5-27-88

Senator CONRAD. One other matter that farmers in my State are asking about is PIK certificates. It takes 6 or 8 weeks, or something like that, to redeem certificates because there is relatively small in-

centive at the current time to PIK and roll. Would it be at all possible to speed up the process of redemption? Are we at the administrative limits in terms of redemption?

Mr. MYERS. You mean issuance or redemption?

Senator CONRAD. Redemption.

Mr. MYERS. OK. The farmer can go into a place like Cargill and get money for them immediately. Now the redemption at the ASCS office, I am not familiar how long it takes. It should not take very long. It should not take but a few days.

I think what you are talking about, Senator, is the issuance and we have had a little trouble with our software being too slow in issuing the certificates. I would agree with you, and I am disappointed, and I have indicated that to some folks.

Senator CONRAD. I think that is what this relates to.

Mr. MYERS. Yes.

Senator CONRAD. I think the feedback that we are getting is that there has been a delay. Do you have any idea when those problems might be resolved?

Mr. MYERS. They are being issued right now as fast as they can issue them. The computers apparently in the county—and they are issued at the county office now. And we should have anticipated this problem. They had some software problems. They did not get the software in on time, and that is the trouble with the computer age. They are working long hours in most of the offices, but they do not have the capability to issue them fast enough. They are issuing right now.

Senator CONRAD. Is that an ongoing problem or a front-end problem?

Mr. MYERS. That is a new problem because it is a new software package that we are just now using in the county offices, and they had some problems with it. They did not get started in time.

Senator CONRAD. Is that a problem that will heal with the passage of time?

Mr. MYERS. This will not happen again next year.

Senator CONRAD. Can we anticipate that it will get better as we go through the year?

Mr. MYERS. Yes, yes. There is no reason they cannot start processing this ahead of time.

Senator CONRAD. All right. Thank you, Mr. Chairman.

Senator MELCHER. Senator Boschwitz.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Well, I welcome you again. We see you here quite often. You are getting to be like Secretary Shultz who runs a regular shuttle service between the Hill and his office. I understand that before I arrived here that you said you will not announce the set-aside until the first of June.

Mr. MYERS. That is correct.

Senator BOSCHWITZ. I want to encourage you to announce a small set-aside. I notice that there are many things in agriculture that are looking a little bit better, and the quicker we get to sounder

policy in this regard and stop trying to control supply, the better off we will be.

I looked at some supply production statistics on the way in this morning, and noticed that there is not a lot of relationship between the set-aside and the supply of wheat. If you look at 1983, we set aside 30 million acres and production went down. We set aside a very, very large number of acres. And nevertheless, production went down just marginally.

And so it is in the other years that I look at it as well. I hope you will resist those folks from the OMB who keep saying that if you increase the set-aside, you are going to save $400 million if you increase it by 5 percent. That is just a lot of rubbish.

If the wheat markets of the world, if we keep the loan rates down and discourage some production, that will have some impact——

Mr. MYERS. We agree.

Senator BOSCHWITZ [continuing]. On the outcome. And that is more important. If you try to prop things up, you are just going to prolong the agony. I believe in markets, as you know, Mr. Secretary. I think I am supported in that by, for instance, the livestock experiences. If you go to the cattlemen and say, "we are going to have a program for you now and we are not going to let the markets decide how many cattle there are going to be," the cattlemen would go out of their minds.

The farmers who have done poorly in the last few years, the farmers who have done the worst, I should say, are those for whom there are Federal programs. I think we have to keep that in mind. There are 100 million head of cattle now. It used to be 132 million.

If this committee had anything to do with it, we would still have 132 million and the prices would be low. We would be scratching our heads on this committee and blaming you guys, or the State Department. The State Department always comes in for its share of blame. That is why some of my colleagues think that they are to blame for the loss of exports in the 1980's even though our exports went down drastically while the amount of exports that have anything to do with the State Department are about 4 million tons a year, or something like that, which is about 5 percent of our overall production.

So that it is not a very meaningful amount in proportion to our loss of exports. I believe, Mr. Secretary, that the 1985 farm bill is working pretty well. The loan rate is down to $2.21 per bushel, still above the variable cost of production, and still inducing production. We should continue to lower the loan rate, as it is the most meaningful thing that we can do. We should not continue to try to set-aside and manage the supplies in a way that clearly does not work, in a way that only induces production elsewhere.

I notice in your prepared testimony that the total competitor acreage is down by 6 percent compared with 2 years ago. That is very good news. Do you feel that it is, to some degree, the result of the lowering of the guarantees as expressed in loan rates?

Mr. MYERS. It has something to do with it, yes.

Senator BOSCHWITZ. What other factors do you believe have influenced our competitors? Perhaps my analysis is incorrect. Are

there other factors that we can have an impact on, that have influenced those results?

Mr. MYERS. Influence the increase?

Senator BOSCHWITZ. The 6 percent, 6 percent decline in plantings.

Mr. MYERS. Well, price is what the farmer looks at, and that is where he makes his decision, and then he looks at the programs that we have, the set-asides, and whether we have paid diversion. He looks at our target price, and he makes his decision.

So we all have a part to play in that. And where we set that target price.

Senator BOSCHWITZ. U.S. loan rates are no longer propping up world prices and consequently total acreage planted by wheat, by competitors, is down.

Mr. MYERS. Competitors, right, is down.

Senator BOSCHWITZ. Six percent.

Mr. MYERS. That's right.

Senator BOSCHWITZ. Do they look at our set-asides?

Mr. MYERS. They look at our loan price because it is a guaranteed world price in some instances.

Senator BOSCHWITZ. That is right. I say to you that competitors are going to look at what you do on the first of June. If they think you are going to prop up the market with a high set-aside, they are going to offset whatever we set-aside. In my judgment, the OMB's projection that you are going to save $400 million with a high set-aside is about as good as some of their other projections.

I looked at the figures in wheat and see the carryover stocks going from 1.9 billion to 1.8, and now they are about 1.2 billion.

Mr. MYERS. Right.

Senator BOSCHWITZ. And I believe that your projections——

Mr. MYERS. Projecting for about 800 million next year.

Senator BOSCHWITZ. At the end of the next marketing year?

Mr. MYERS. Yes.

Senator BOSCHWITZ. We certainly are going in the right direction, and I encourage you to continue going in the right direction. I believe the 1985 farm bill is working but we keep arguing the same old things in this committee. We have been arguing in this committee about policies that have not had a meaningful impact except to drive down farm income and drive up the cost of programs as long as I have been here, and my staff tells me for 30 years before that.

My colleagues, with whom I respectfully disagree, are making arguments that are now getting kind of gray. I hope that the Department takes an aggressive position with respect to our competitors and with respect to the whole business of the farm programs in this coming year. Certainly I will be supportive, and I recognize that not everyone will be supportive.

I think that this Secretary and you, Mr. Deputy Secretary, have had the courage of conviction, and I trust it will once again be reflected in the decision that you make and announce on the first of June.

Mr. MYERS. Thank you.

Senator BOSCHWITZ. More of a speech than a question, Mr. Chairman. Mr. Myers would you like to respond?

Mr. MYERS. No, sir. You know I feel as you do about the market setting the prices and having less interference from Government. I still agree with that.

Senator BOSCHWITZ. Worked well for the cattlemen, Mr. Chairman, and I know that you have a number of them out there. And I have a lot too. If I look at the agricultural receipts from my State, the largest agricultural industry is dairy. There the program does not generally seek to constrain supplies, and the dairymen have done better than others despite a price decline over a period of time.

Their productivity and their costs of production have more than offset those price declines, by and large, or at least have kept pace with them. The hog producers, the turkey producers, the cattlemen have done very nicely indeed without programs, particularly in recent months.

Even though hog prices went down, producers did not call and complain. I saw, Mr. Secretary, an interesting article that appeared in the Minneapolis Tribune. It depicted the farmer as sitting there in front of his computer punching in the numbers. The computer kept saying plant corn, plant corn despite the market conditions for soybeans.

It showed that you could make $75 an acre on soybeans, $11 an acre on corn, but the programs gave you another $88 an acre on corn. We have got to get away from that. We cannot have programs that induce production of things that are not needed, things for which there are not markets. Therefore whatever actions you can take to promote market orientation, I think, are in the best interest of agriculture and the best interest of farmers and best interest of consumers, and also in the best interest of getting agriculture from being such an enormous factor in the budget. I do not think my colleagues who come from nonagricultural States are going to be so patient over a long period of years. We are going to have to do some difficult things to agriculture that perhaps we can avoid if we at least set our goal on what I call "good policy" at this time. Thank you, Mr. Chairman, for allowing me to go on.

Senator MELCHER. Thank you, Senator Boschwitz. Pete, just following up on Senator Boschwitz' remarks, was it not the Export Enhancement Program that reduced the surplus?

Mr. MYERS. It has had an effect. There is no doubt about that, Senator. It has been an aggressive program.

Senator MELCHER. What else had an effect?

Mr. MYERS. Export Enhancement has an effect. Lower loan prices have had an effect. There is no doubt about either one of those. And poor crops, poor quality crop, particularly in wheat in the European Community.

Senator MELCHER. In the European Community.

Mr. MYERS. And the weakness of the dollar. There are several factors that have made a difference.

Senator MELCHER. I am just speaking about U.S. surplus.

Mr. MYERS. Well, our surplus is still dependent on what we can move into world trade.

Senator MELCHER. It is hinged to the rest of it. Yes. Am I wrong? Were there not arguments within the administration on whether

or not the Export Enhancement Program would be offered to the Soviets?

Mr. MYERS. Not that I am aware of. Now there may have been some in places that I——

Senator MELCHER. What delayed it then?

Mr. MYERS. You mean the export enhancement for the Soviets?

Senator MELCHER. Yes.

Mr. MYERS. Well, there were discussions, good discussions.

Senator MELCHER. Oh, I see. That is not an argument. Just discussions.

Mr. MYERS. Healthy discussions as you have in the Senate.

Senator MELCHER. Yes, all right. It did delay it. Those discussions did delay it somewhat, did it not?

Mr. MYERS. Probably.

Senator MELCHER. How about China?

Mr. MYERS. There again I am sure there were discussions.

Senator MELCHER. Were there not discussions for about 6, 8 months, 9 months?

Mr. MYERS. Two sides. There are two sides to those issues right now. You can go into the country and talk to people that do not agree that we should——

Senator MELCHER. Yes, but was there not a prolonged discussion before Export Enhancement was offered to China?

Mr. MYERS. Depends on what your definition of prolonged is.

Senator MELCHER. Six months.

Mr. MYERS. There was discussion.

Senator MELCHER. Six months.

Mr. MYERS. I do not honestly remember the time period it took.

Senator MELCHER. Philippines? How about there, was there a little discussion over that? It seemed to take 90 days to clear up.

Mr. MYERS. On the Philippines?

Senator MELCHER. Yes.

Mr. MYERS. We always have discussions on any.

Senator MELCHER. Have we offered Export Enhancement to Indonesia?

Mr. MYERS. I would have to look.

Senator MELCHER. Is that still in the discussion stage?

Mr. MYERS. Not on wheat, Senator.

Senator MELCHER. No. So that is in the discussion stage, I take it?

Mr. MYERS. It will depend where the Indonesians traditionally buy their wheat from. If they are a buyer of the European Community then it would be a discussion point. If they were a traditional buyer from Australia, we would probably not target Export Enhancement at the Indonesians. I do not know.

Senator MELCHER. How about Mexico?

Mr. MYERS. Yes, we have had Export Enhancement to Mexico.

Senator MELCHER. So we are beyond the discussion stage there?

Mr. MYERS. Yes, sir.

Senator MELCHER. That is good. How about Nigeria?

Mr. MYERS. You are talking about wheat?

Senator MELCHER. Wheat.

Mr. MYERS. I do not see Nigeria on our list, Senator.

Senator MELCHER. Why?

Mr. MYERS. There again I would have to look at who they traditionally buy wheat from because we targeted that——

Senator MELCHER. Well, they do not traditionally buy it from Australia, or do they?

Mr. MYERS. I do not know. And I can find out.

Senator MELCHER. Or from Canada?

Mr. MYERS. There again I do not know.

Senator MELCHER. Do you recall when we sold them over a million tons of wheat a year?

Mr. MYERS. In here?

Senator MELCHER. Do you recall when we sold Nigeria over a million tons of wheat per year?

Mr. MYERS. I do not.

Senator MELCHER. It has been a long time back. Let me tell you that. But I recall it. Well, at any rate what I am trying to get at with this comment is that I am never sure when I can agree with Senator Boschwitz or when I have to take exception. But I just heard him say that only 4 million tons of wheat was involved with anything to do with the State Department.

And I have been under the impression that there was quite a significant amount of wheat that was involved with discussions with the State Department whether it is ever going to have Export Enhancement Program.

I want to tell you what I asked the panel earlier in an earlier hearing. Why was Export Enhancement all of a sudden jarred loose? Who should we applaud for doing that and finally Tom Kay volunteered we really ought to thank Secretary Lyng.

Mr. MYERS. I would agree.

Senator MELCHER. Well, I do, too. I certainly do agree. But who do you have to have all these discussions with in the State Department?

Mr. MYERS. We have a committee that we discuss any type of export subsidies with that includes the State Department and other parts of the administration, Senator.

Senator MELCHER. How well I know. It is about time that somebody takes charge, and I thought maybe Secretary Lyng had taken charge.

Mr. MYERS. He has.

Senator BOSCHWITZ. What was your answer to that?

Mr. MYERS. We have a committee that looks at export, subsidized export sales.

Senator BOSCHWITZ. Did you say who is on the committee?

Mr. MILTON. Oh, State, USTR, Treasury.

Senator MELCHER. AID.

Mr. MYERS. AID is on it, yes, sir.

Senator MELCHER. The State Department gets two licks at it.

Mr. MYERS. Not really. AID and State do not always agree. That is the interesting thing I have found out.

Senator MELCHER. Yes, but who is the boss?

Mr. MYERS. They do not think that in AID. They think they are their own boss. I think you would find that out.

Senator MELCHER. For the record, the boss is the Secretary of State.

Mr. MYERS. I understand that, but I think you would find my fellow Missourian would say he is a strong administrator.

Senator MELCHER. Can we count on the 1989 crop being available for the Export Enhancement Program?

Mr. MYERS. Unless the conditions change dramatically and we get some real commitments from the Europeans, I would suspect we are going to see Export Enhancement continue on a targeted basis.

Senator MELCHER. Well, I guess that is a definitive enough answer because I do not know what is brewing until you get something from the European Community. So I guess the Export Enhancement Program will continue on through this year into the first part of next year.

If the projection—I am just going to take the midrange of your projection on wheat—that is 45 cents a bushel, up over—is that midrange? If it is 45 percent higher. We figure the first 5 months of the marketing year for purposes of target prices; do we not?

Mr. MYERS. That is correct for wheat.

Senator MELCHER. So if—I think I am taking about your midrange or your projection of price for the 1989 crop. If it is 45 cents higher for the first 5 months of the 1989 crop. Maybe that is a little bit too high. Maybe I should take 35 cents.

If the 1989 crop is 35 cents a bushel higher—forgive me—if the 1988 crop is 35 cents a bushel higher during the first 5 months of the marketing year than the 1987 crop, that means that there is roughly a $700 million saving on outlay from the Treasury for deficiency payments. That is roughly——

Mr. MYERS. That sounds like a good rough figure.

Senator MELCHER. Yes.

Senator BOSCHWITZ. One second though. Would you say that again, please?

Senator MELCHER. If the first 5 months of the marketing year for the 1988 crop is 35 cents a bushel higher than the first 5 months of the marketing year for the 1987 crop, the savings in outlay for deficiency payments will be roughly $700 million.

Now that is for wheat. Would that likely have an effect, just the higher wheat price, have an effect on corn prices?

Mr. MYERS. It should have some effect, the interchange between feed wheat and corn, but in order to give you an honest answer, I would have to stop and think a little bit about that. It would have some effect because there is some wheat that we use for feed at certain prices.

Senator MELCHER. Do you have a projected price for corn yet for the 1988 crop?

Mr. MYERS. I am sure we do. $1.65 to $2.35 cent range.

Senator MELCHER. If we took the midpoint, how much higher would that be for purposes of establishing the deficiency payment?

Mr. MYERS. Than last year?

Senator MELCHER. Yes.

Mr. MYERS. About 20 cents higher, Senator.

Senator MELCHER. So then we would be looking at roughly $1.4 billion savings in deficiency payments, would we not? About 7 billion bushels.

Mr. MYERS. About right.

Senator MELCHER. Yes. I mention that because I think you are going to be guided somewhat on what you do on making your announcement for the 1989 crop on set-aside of wheat because obviously OMB will have an interest in that, will they not?

Mr. MYERS. Oh, they always have an interest when we spend money, which they should.

Senator MELCHER. So even knocking down to the statutory requirement of the 20 percent set-aside would mean there would be some increase in deficiency payments possible.

Mr. MYERS. That is right.

Senator MELCHER. With the 1989 crop. And so knocking it down below that, maybe knocking it down below 20 percent set-aside, say, to 15 percent, there would be another—something would have to be penciled in for projected cost of the program itself.

Mr. MYERS. That is right.

Senator MELCHER. Well, I think once the trend is set, as it seems to be set now for an increase in overall grain prices because of the disappearance of wheat surplus, perhaps when we get to discussing corn and feed grains in the later hearing,[1] we can get the details then on why you think the projected price for corn would be an improvement for the 1988 crop and we can get into that then. And I will not prolong this discussion now.

I want to encourage you to very vigorously pursue Export Enhancement. I note that a sentence in a certain section of the Free-Trade Agreement with Canada is, from my standpoint, highly objectionable. It is a sentence that says that sale, subsidized sale by United States of a commodity to have some effect on Canada, they would have to take that into consideration.

I think every subsidized sale of wheat has some bearing on what happens with Canada's wheat. I do not think there is any question of that. And I personally feel the treaty is deficient. It is not in our best interest. And that is one of the major reasons.

And notwithstanding any side-bar language that we might attach to that, as long as that section remains as it is, I think it is very objectionable and ought to be opposed by the United States because it is not only in our best interests to reduce the U.S. surplus of wheat and feed grains, and specifically wheat, it is certainly in the best interest of Canada that we reduce our surplus.

And we are reducing it, simply put, or primarily because we are using Export Enhancement. And to cloud that circumstances I think would be disadvantageous for the United States in getting rid of wheat surplus.

I not only want you to use Export Enhancement, I also want to make sure that we do not trigger in with that Canadian Free-Trade Agreement the circumstances where every time you use the Export Enhancement, you are going to have a complaint by Canada on the basis that it violates the Free-Trade Agreement. We get enough complaints despite the fact that getting rid of our surplus is in their long-term interest.

Do you want to comment on that?

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[1] Due to the legislative action caused by the 1988 drought conditions a hearing on corn and sorghum was not held.

Mr. MYERS. Well, I would say we do not read the Free-Trade Agreement that it in any way would preclude us from using Export Enhancement against countries that subsidize the sales of their wheat, Senator. So I disagree with your interpretation of that and would not want it precluded. I think we should be able to use Export Enhancement against the European Community, in particular, without the Canadian Free-Trade Agreement having anything to say about it. And I do not believe we interpret it that way.

Senator MELCHER. Well, section 701, paragraph four quote, "Subsidies cannot be used when there would be a prejudicial effect on Canada's export interests."

Mr. MYERS. I guess the definition of prejudicial would come into play. But you are correct in saying that any time we use a subsidized sale that it does affect to a very limited degree the other wheat exporting countries of the world, but not directly.

Senator MELCHER. It is a fungible commodity.

Mr. MYERS. I cannot argue that with you.

Senator MELCHER. And when you subsidize any sale through Export Enhancement, of course it has a prejudicial effect on the competitor. And Canada is a competitor.

Mr. MYERS. Well, it depends on your definition.

Senator MELCHER. There is no two ways of reading the English language on that. Prejudicial effect is a broad term, and of course a sale has a prejudicial effect on Canada when we make it because they could have made the sale.

Well, thank you very much. Senator Karnes, perhaps you have something?

Senator BOSCHWITZ. Mr. Chairman, would you yield?

Senator KARNES. Absolutely.

Senator MELCHER. Go right ahead, Senator Boschwitz.

Senator BOSCHWITZ. You are quite correct, Mr. Chairman. I must stand corrected. Since the EEP started the government's involvement, or the State Department's involvement has been larger. However, the reason I gave that figure was for the years 1977 to 1982 government-sponsored exports were: 4.3 million, 4.1 million, 3.7 million, 3.4 million, 3.7 million, and 3.9 million respectively. During those years the total exports of wheat ranged from 21 million in 1977, all the way up to almost 42 million tons in 1982.

So that those were the figures to which I was referring. What is the approximate per ton subsidy enhancement that you give, Mr. Secretary? What is the average? How many dollars per ton?

Mr. MYERS. That has been quite a wide range depending on the price of wheat and the country that we have dealt with, Senator.

Senator BOSCHWITZ. Could you give me a sense of that range?

Mr. MYERS. Recently $20 to $23 a ton. It was wider than that at one time, and here again it varied country by country.

Senator BOSCHWITZ. The impact of the loan rate going from $3.65 to $2.21 per bushel, would be about $55 to $60 a ton and probably had as much impact on, or more impact, obviously, in dollars than EEP itself. We were also more competitive because of the decline in the dollar, which, of course, varies from country to country.

There has also been something of a pickup in usage, has there not?

Mr. MYERS. That is correct.

Senator BOSCHWITZ. And you feel that is related to the price as well?

Mr. MYERS. That is right.

Senator BOSCHWITZ. So Mr. Chairman, you were indeed correct that there is presently more than 4 million tons influenced by the State Department when you include the EEP. It has not been so historically. I do agree with the Secretary that EEP is important, but no one can say it has been insignificant. The Secretary's answer when you asked about Indonesia and others involved trying to find out whether or not the Canadians or the Australians or the Argentines are shipping to them. Since this whole EEP effort is directed at the Europeans will the Canadians not be able to see a record of intent from our past utilization of the EEP as not being directed at them in the event we continue the same considerations in future use of the EEP?

Mr. MYERS. They see that record. And let me comment also on this section 701. It says that each party shall take into account the export interests of the other party. It does not say that we can or cannot do anything. It just says we have to take into account, on the prejudicial effects when we are using export subsidies.

So it is not prohibitive. It does not say that we can or cannot, and I think you are correct in your assessment. The Canadians have noted the direction and have commented to me personally that we do not go after their traditional markets.

Senator BOSCHWITZ. If you have a fungible commodity like wheat and you give incentives for export enhancement, whatever kind, fungibility just would make wherever you subsidize affect other areas.

Mr. MYERS. That is correct.

Senator BOSCHWITZ. I would hope that after a period of time that we can get away from that, but it certainly depends upon the action of the Europeans, and as long as they do it, it is very hard to just give that market away so that I agree that we have to be aggressive.

And as I recall that program, the Department of Agriculture under this administration started the EEP before we put it into the 1985 farm bill; is that correct?

Mr. MYERS. Now that I am not aware of. They say yes. You would not have said it if it was not correct so I will say yes.

Senator BOSCHWITZ. It is correct, and eventually we legislated it to expand it and to give it the imprimatur of this committee.

Mr. MYERS. I was worrying about soil conservation at that time, Senator.

Senator BOSCHWITZ. I see. After awhile we legislated it to give it the august imprimatur of this committee. It went forward from there. Thank you, Mr. Chairman, and I appreciate your bringing it to my attention the fact that I was incorrect regarding the present possibility of State Department involvement. I was talking about the period when we lost exports not now when we are gaining.

Senator MELCHER. Senator Karnes.

Senator KARNES. Thank you, Mr. Chairman, and not being a member of this subcommittee I appreciate your calling these hearings and appreciate the opportunity to come and ask a couple of questions of my good friend, Secretary Myers.

The Agriculture Department continues to aggressively use the EEP Program to market wheat overseas. The Government-held wheat stocks have been dramatically reduced, and I think that is a very positive sign. Currently, Government carryover, and correct me if I am wrong, is projected only slightly above the 147 million bushel minimum mandated by the Food Security Reserves.

Mr. MYERS. That is correct.

Senator KARNES. Exporters who have used the EEP Program receive generic certificates that can be redeemed for any commodity, and as these wheat stocks decline, those certificates will, in my mind, be increasingly used to redeem corn stocks, I suspect.

Has the Department examined the price effect of pushing additional corn stocks on to the markets?

Mr. MYERS. We look at all effects and look at different scenarios, Senator, so we have looked at that particular scenario, yes.

Senator KARNES. And what has been your conclusion on the impact?

Mr. MYERS. We would prefer not to manipulate from the Department level and just let the certificates flow where they should and not deliberately manipulate posted county prices or this type of thing in any direction. Let the market guide it as best it can.

Senator KARNES. Are the stocks that are redeemed under the EEP generic program required to be used in the export arena? Or can they be used any way?

Mr. MYERS. Anything basically. And they can redeem any CCC stock that they want and use it for any use that they want. As you said, they flowed recently to wheat, but they have also flowed to corn.

Senator KARNES. But those stocks, if they are redeemed, they do not have to be used?

Mr. MYERS. They have to go into the market. That is the key. When you redeem a certificate, they have to go into the market. The idea is to get it out of the hands of either the producer loan stock or the CCC, if it was Government stocks.

Senator KARNES. But they are not required to be exported?

Mr. MYERS. No.

Senator KARNES. So this could displace commercial sales or—I guess I am curious to see your comments on what impact this would have on the corn market. And I know you do not intend to manipulate.

Mr. MYERS. No.

Senator KARNES. But you do make projections on how certain of your decisions will impact other commodity markets?

Mr. MYERS. The supply of certificates could impact it. If the certs were going to flow toward corn, it would impact the corn market because the producers would see an opportunity to redeem corn loans, for instance, and put more corn into the market. That is true. And we have looked at this.

Here again it depends on the supply of certificates that are available and what the prices are. And we do not want to artificially manipulate these prices to drive this one way or the other. We have looked at many different options and basically rejected artificial manipulation.

I know it does not seem like that to the person on the outside looking at it, but that is the truth.

Senator KARNES. I think the point is people like yourself and people at the Department who follow this can make certain assumptions as to what the market——

Mr. MYERS. Yes.

Senator KARNES [continuing]. Will do. And I guess that is my question. I know you do not intend to do any manipulation, but——

Mr. MYERS. We do make assumptions based on the supply of certs, and this is one of the reasons we have announced ahead of time how many certificates will come out from the various programs so that all people that are interested can make the same assumptions that we would make.

Senator KARNES. Your estimate on corn stocks and cash market prices of corn are public? I guess I am not familiar with what they are. Can you tell me a little bit about what those assumptions are right now?

Mr. MYERS. Well, the assumptions are corn to be between $1.65 and $2 a bushel. And of course, as you well know, there is many other factors that can be involved. That would be based on a certain crop, average crop, that type of thing.

And we have many assumptions that they have put into those estimates, but nobody can control the weather.

Senator KARNES. Right.

Mr. MYERS. I think that is the unknown that we cannot calculate, and that is one of the reasons you see a range in prices because we look at the different ranges in possible crops which give us the carryover. We also try to assume exports based on different prices. The higher the commodity price, the assumption is the export volume could drop.

Senator KARNES. That is all I have, Mr. Chairman. Thank you.

Senator MELCHER. All right. Thank you very much, Peter, for being here with us today.

Mr. MYERS. Thank you.

Senator MELCHER. We have a panel for our next witnesses of Carl Schwensen, executive vice president of the National Association of Wheat Growers; Roy Henwood, president of the Millers' National Federation; and Winston Wilson, president and chief executive officer of U.S. Wheat Associates.

I guess you are first, Carl. We would appreciate it if you would summarize your testimony, and we can get to the question period quicker.

STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WASHINGTON, DC

Mr. SCHWENSEN. Certainly, Mr. Chairman. I appreciate the opportunity to appear here today. I will just make three or four points. I think the previous witnesses covered rather comprehensively what the domestic wheat situation looks like.

We made substantial progress over the past 2 years in reducing stocks. We agree, as you said, that it has largely been due to the Export Enhancement Program. We have seen stocks decline at a

record level. We are looking currently at 1.2 billion bushels of wheat this June 1. Carryover could go below 800 million bushels a year from now.

The Agriculture Department, as was discussed earlier, is currently looking at the unpaid land diversion requirement for 1989. My organization has recommended that that level be between 10 and 20 percent. We have been at 27.5 percent the past 2 years, and given the stronger market we are looking at, we think that farmers should have the opportunity to put additional volume into the market as we experience these higher prices.

One point to mention is that we are talking about the 1989 program, and it is 12 months away, and that crop will be marketed in the subsequent 12 months. So it is really hard to get a good fix on exactly what the domestic and export utilization is going to be, and therefore what precisely the level of acreage reduction should be.

You also mentioned very importantly, Mr. Chairman, the importance of continuing the Export Enhancement Program or something like it. We feel that given the competitive atmosphere that we are experiencing now, and prospectively what the market looks like we are going to need, the assistance of that program to keep our market share and to continue to be a viable wheat exporter in the world market.

And I will be happy to answer questions whenever you would like to get to that.

Senator MELCHER. All right. Thank you, Carl. Mr. Henwood.

[The prepared statement of Mr. Schwensen, with attachments, follow:]

89-754 - 88 - 5

Statement of Carl Schwensen
Executive Vice President
National Association of Wheat Growers
before the
Agriculture Production and Stabilization of Prices Subcommittee
of the
Senate Committee on Agriculture, Nutrition, and Forestry
May 25, 1988

Mr. Chairman and Members of the Committee:

The National Association of Wheat Growers appreciates this opportunity to present its views on the U.S. wheat situation and policy recommendations for 1989 federal programs. I am Carl Schwensen.

I would like to begin my remarks by reviewing the substantial progress that has been made over the past two seasons under policies which have been in place to competitively price U.S. wheat and to counter unfair trading practices of other exporting nations. At this time in 1986, the U.S. was holding a record level of 1.9 billion bushels of unsold wheat. This stockpile amounted to 97 percent of total domestic and export utilization, and it caused many of us to believe that we had entered a new generation of farm surpluses.

When current policies for wheat were established, it was understood that it would take several seasons before we would have the intended impact on the production and marketing of our competitors. In 1987/88 we began to see results from U.S. policies as production in several major wheat growing countries declined. However, several of our competitors may not have recognized the depth of our determination or our resolve to retain at least the share of the world wheat market that we now have. Australia and Canada have announced higher initial payment levels to their producers for the coming year to stimulate output. European wheat acreage will again be large. The U.S. was in a position to recover a good deal of our lost world market share this past year, principally through the use of the Agriculture Department's Export Enhancement Program (EEP). It appears that we must prove to some of our competitors again that we intend to retain our wheat markets.

In the past year, U.S. wheat exports have increased by 60 percent to 1.6 billion bushels, compared to the record export level of 1.7 billion bushels in 1981. This strong export performance has enabled ending stocks of wheat to be reduced by one-third to about 1.2 billion bushels, and it has also caused the U.S. to increase its share of the world wheat market by about 10 percent. These gains have been facilitated by USDA actions which have ensured market liquidity and brought about a significant reduction in the amount of wheat stocks controlled by the government. In particular, I am referring to the certificate exchange program, or "wheat auctions" that have been conducted by USDA.

Growers have generally accepted the wheat auctions as a means of cycling government inventories into the market. However, we have consistently encouraged the development of USDA procedures which would offer farmers incentives similar to those given grain merchandisers to put their grain into the market. To date, the Agriculture Department has been unwilling to implement such a program.

The new wheat marketing season will begin on June 1, and a 27.5 percent acreage reduction requirement will be in place for the second consecutive year. Also on June 1, the Agriculture Department is expected to announce major program provisions for the 1989 Wheat Program, and I would like now to discuss the NAWG's recommendations as they relate to grower returns.

First, cash market prices are not the bottom line for income from wheat. With the 1985 Farm Act, wheat income comes not only from cash prices but also from income deficiency payments. When cash prices are higher than the price support loan rate, deficiency payments are lowered by a like amount. The bottom line income-wise is the target price which for 1989 is set at $4.10 per bushel.

Secondly, the U.S. is engaged in a world struggle for market share, and adequate stocks of wheat play a role in this struggle. If we are to continue to hold the share of the world market that we now have, it will require increasing production in 1989. It is critical that we make the right choice. If the 1989 acreage reduction level (ARP) is too small, we run the risk of building surpluses. If the ARP level is too large, we stand to lose market share as well as program participation and the ability to keep production in line with demand. With the May 10 announcement that 1988/89 ending stocks of wheat will be below 1 billion bushels, the Secretary of Agriculture cannot set the ARP level any higher than 20 percent of the farmer's wheat base.

The NAWG has recommended to USDA that the 1989 ARP level for wheat be set between 10 and 20 percent of the farmer's base acreage. We feel that this level of acreage adjustment will yield adequate supplies to meet anticipated domestic and export demand for U.S. wheat. In the event that reduced acreage generates to much additional production, or if our demand calculations prove false, excess supplies from the 1989 crop can be moved into the Farmer-owned Reserve Program to gain price stablity. That is what the FOR program is for; it is a safety valve that can be used to "fine tune" available supplies.

Many components of the 1989 Wheat Program were determined by the Congress in the 1987 Budget Reconciliation Act. These determinations included the establishment of a $4.10 per bushel target price; a $2.76 per bushel basic loan rate; compensation for yield adjustments below the 1985-crop payment yield; a 75 percent advance of the "Findley" payment by December 15; grazing of conservation use (CU) and acreage conservation reserve land (ACR); and 0/92.

As we understand USDA's intentions, the price support loan level for 1989 would be $2.06 per bushel. This level is reached by reducing the basic loan level of $2.76 per bushel by the maximum 7 percent allowable under the Budget Reconciliation Act and then applying the full 20 percent "Findley" loan rate reduction. This decision would be consistent with the NAWG's competitive pricing objectives.

The NAWG has also urged the Agriculture Department to allow all growers to adjust crop acreage bases by up to 10 percent for the 1989 crop. We believe that this option would give growers useful flexibility in managing their farming operations. We have also indicated our endorsement of modified cross compliance between commodity programs and our opposition to offsetting compliance between farms.

Mr. Chairman, this concludes my remarks. I will be pleased to respond to questions at the appropriate time. Thank you.

Letters, a question and response follow:

PATRICK J. LEAHY, VERMONT, CHAIRMAN
JOHN MELCHER, MONTANA
DAVID H. PRYOR, ARKANSAS
DAVID L. BOREN, OKLAHOMA
HOWELL HEFLIN, ALABAMA
TOM HARKIN, IOWA
KENT CONRAD, NORTH DAKOTA
WYCHE FOWLER, JR., GEORGIA
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JOHN B. BREAUX, LOUISIANA
RICHARD G. LUGAR, INDIANA
ROBERT DOLE, KANSAS
JESSE HELMS, NORTH CAROLINA
THAD COCHRAN, MISSISSIPPI
RUDY BOSCHWITZ, MINNESOTA
MITCH McCONNELL, KENTUCKY
CHRISTOPHER S. "KIT" BOND, MISSOURI
PETE WILSON, CALIFORNIA
DAVID R. KARNES, NEBRASKA

United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

June 28, 1988

Mr. Carl F. Schwensen
President
National Association of Wheat Growers
415 Second Street, N.E.
Suite 300
Washington, D.C. 20002

Dear Mr. Schwensen:

I appreciate your testifying before the Committee on May 25, 1988. Enclosed are additional questions which are being submitted to you for written answers. I would appreciate receiving your answers to the questions by July 19, 1988 so that the hearing record may be printed as soon as possible.

Thank you for your cooperation.

Sincerely,

John Melcher

JOHN MELCHER
Chairman
Subcommittee on Agricultural Production
and Stabilization of Prices

Hearing on World Wheat Demand and the Status
of U.S. Marketing Tools
Senate Agriculture Committee
Questions from Senator Daschle
May 25, 1988

Questions for Carl Schwensen, President of the National Association of Wheat Growers

o **This committee is currently studying the issue of grain quality. I fully support the pilot program which will provide premiums and discounts for wheat. It is a step in the right direction. As we are trying to increase our market share, quality again is of major concern to South Dakota farmers. Currently criminal fines of up to $75,000 can be assessed to exporters who violate the 1986 Grain Quality Standards Act. I am asking you, whether or not this is an adequate deterent for grain sellers or is there some other way we can provide incentives to exporters to provide clean grain?**

National Association of Wheat Growers
415 Second Street, N.E., Suite 300, Washington, D.C. 20002, (202) 547-7800

July 8, 1988

The Honorable John Melcher, Chairman
Subcommittee on Agricultural Production
& Stabilization of Prices
Senate Committee on Agriculture, Nutrition and Forestry
Washington, D.C. 20510-6000

Dear Senator Melcher:

This is to respond to your letter of June 28 which transmitted a written question to be answered to complete the Subcommittee's hearing record on the U.S. wheat situation.

The question asks if current penalities are "an adequate deterent for grain sellers or is there some other way we can provide incentives to exporters to provide clean grain?"

The debate on clean grain has been a long one, and it probably will continue well into the future. Steps have been taken by the Congress and the Federal Grain Inspection Service to promote improved grain quality, and FGIS has performed quality summaries of inspected wheat since 1984. Also, a grain industry task force, which includes representatives of growers, processors and exporters, continues to meet regularly to identify changes in standards and procedures to improve grain quality. These actions demonstrate that the grain industry has accepted the responsibility to deliver a better product to domestic and overseas customers.

Changes in standards and measurement procedures, however, cannot solve the export quality problem alone, and the FGIS and the grain industry are currently considering reforms in the CUSUM loading system which is used to certify the quality of grain loaded into vessels. Improved loading procedures can help to ensure that importers receive the quality of grain that they have contacted for.

I hope that these comments are helpful to the Subcommitee. We will be pleased to provide any additional information that you might request.

Sincerely yours,

Carl F. Schwensen
Executive Vice President

STATEMENT OF ROY M. HENWOOD, PRESIDENT, MILLERS' NATIONAL FEDERATION, WASHINGTON, DC

Mr. HENWOOD. Yes, Senator, thank you. You have asked me to bring some specific information to the committee today, namely the grist requirements of the U.S. milling industry for 1989 and 1990 as we go into that discussion on the wheat programs. That and some additional information is provided in my formal statement that you have before you for the record.

I think it is quite important that the industry have the opportunity to make this information available. I think there may be some in the wheat marketing chain who tend to forget that year in and year out the milling industry of the U.S. utilizes about a third of the wheat crop for domestic food uses, for feed, and importantly also for the export of an added value commodity.

But in summary my statement states that U.S. mills ground in 1987 a record 760 million bushels of wheat. We call that in milling parlance 338 million hundred weights, but it translates to approximately that bushel amount. That was up from a previous record set in the earlier year in 1986 when mills ground 737 million bushels.

Please note that both of those levels are below slightly the projected carryover for the 1988–89 season. Both of those record years were the result of two factors. The principal one was the fact that there has been a steady and a rather dramatic growth, an upward trend, if you will, in U.S. per capita consumption of wheat flour throughout the decade of the 1980's.

The fast food phenomenon in the early 1980's and more recently the consumer nutrition awareness of consumers have been contributing factors. Another demand factor was the desire of the consumer for variety breads, and for the convenience foods that we are seeing more of now that are wheat flour based.

A second factor of that record production was aggressive use by USDA of the EEP we have discussed. That has taken place for these past two and a half years, and has resulted in about 1.5 million metric tons of export flour that was not otherwise marketable.

That translates into about 2.1 million metric tons of wheat if our calculations are correct. What is important about that is that we do not expect it to change in the 1989–90 year. It is safe to assume that again the milling industry will require between 750 and 800 million bushels for our grist, and we say that because per capita consumption gains now increase at a rate that is even greater than the population growth.

That will be a significant factor for us. Also, as was alluded to earlier, as the export prices decline as a result of a reduced loan rate, we certainly hope that export flour will again become more competitive on a straight commercial basis resulting in more tonnage going offshore.

Hopefully P.L. 480 also will continue at the current levels. And then my prepared statement references the fact that we believe that the EC watches the debate on the ARP with great interest and I certainly feel that the United States has to bargain from a position of strength in these trade matters and the signal that the ARP

would send if it were substantially lowered would be very positive in that regard.

It would say that the United States will not unilaterally make those production adjustments for world wheat supplies. And I think we need to have that signal in order to bring our trading competitors to the table. I reference in the prepared statement this industry's experience with a long-standing and unresolved GATT complaint which convinces us of the need for trade reform. I think a substantially reduced ARP might provide the necessary leverage with our trading competitors to get them to the table.

Beyond saying that it should be substantially reduced, I am a little hardpressed to set a specific level, but 10 percent has been mentioned. It sounds reasonable to me. While it is not the position of Millers' Federation at this time to have a 10 percent level, it is certainly being spoken of by more and more of our members. Two major members who are in the grain trade as well have that as a position, but they have 10 percent as a maximum.

As I bounce that figure around among other members, I find 10 percent not garnering any objection so I give that to you for your consideration as we get into this discussion. That is my time and the extent of my summary. I would be happy to do what is necessary from here.

Senator MELCHER. Thank you. Winston.

[The prepared statement of Mr. Henwood, questions, and responses follow:]

TESTIMONY OF MILLERS' NATIONAL FEDERATION
PRESENTED BY ROY M. HENWOOD, PRESIDENT

Good morning, Mr. Chairman. Thanks to you and the other members of the subcommittee for the opportunity to participate in discussion important for the 1989-90 wheat crop. Since wheat is the millers' principal raw ingredient and accounts for 85% of his costs, it is of vital interest to us. The subcommittee has asked that the Federation provide details on the amount of wheat that the U.S. milling industry will require for the 1989-90 crop year. The projections which follow are based upon our assessment of the domestic market for wheat flour and on the market for export flour during that period. The experience of crop years 1986 and 1987 is our reference in making these estimates.

The projections reflect very recently updated information on U.S. flour production in 1986 and 1987 as collected by the Bureau of the Census and as interpreted and reported in the trade journal of our industry, **Milling and Baking News.** By way of background to aid the committee in assessing our estimates, please note that the Federation represents greater than 90% of the domestic milling capacity in the U.S. That capacity is expressed in terms of hundred weights of production (cwts.) and is calculated on a 24-hour basis. There are approximately 1.2 million cwts. of production capacity in the industry. It would be our pleasure to use every single hundred weight to grind U.S. wheat next year!

In offering our projections we make two assumptions: 1) that the per capita consumption of flour domestically will continue to trend upward as it has throughout this decade, and, 2) that the Secretary will continue aggressive use of the Export Enhancement Program as he has indicated he intends to do.

The figures I offer now are recently revised. U.S. flour production in calendar year 1987 has been pegged at 338 million cwts. (a bushel equivalent of 760 million bushels). That compares to a 1986 production of 326 million cwts. (737 million bushels). Please note that those figures are on a calendar year basis. The U.S.D.A. calculations are made on the basis of crop year, and so some extrapolation will be necessary.

In making a rough comparison between the bushel size of the crop the past two years and the grind of U.S. mills in those years, you will see that the mills account for approximately a third of the crop each year. That has certainly been the case in the past two years in which the U.S. has produced between 2 and 2.1 billion bushel crops.

We expect to see a similar record of use for wheat by U.S. mills in 1988-89. Although 1987 was a record year for grind, we have every reason to expect another similar year, since seven of the last eight years have resulted in record production. The decade of the eighties has been one of steadily increasing per capita consumption of flour domestically. For that trend to diminish overnight would be unlikely. The rate of 128 lbs. per capita in 1987 is 4 lbs. above the 1986 rate and 5 lbs. above the 1985 rate. In fact, the rate now exceeds the rate of population growth, indicating higher utilization of wheat-based foods. This happy situation reflects both the fast foot phenomenon of the early eighties and the more recent impact of the health-conscious consumer

seeking the benefits of complex carbhydrates, additional fiber in the diet, and a variety of wheat-based foods. Wheat-based convenience foods are a major contributing factor.

It also is our expectation that export markets for flour can be sustained in 1988-89 through aggressive use of the Export Enhancement Program, and through continuation of P.L. 480 programs. These government-assisted programs regrettably encompass most of the U.S. export flour market, since normal commercial markets generally are captured by subsidizing overseas competitors. But we fully expect to hold on to the markets which the programs have provided. Indeed, we expect to increase our market share where possible, although rarely have exports exceeded 10% of domestic production. Our expectation is therefore, that 66 million bushels will be consumed as flour exports and as the feed resulting from that production in 1989-90.

The net on all this is an estimated total bushel requirement for U.S. milling grist in 1989-90 of 750-800 million bushels. A further uncertainty could be added if the milling quality of the wheat of that year is poor. Poor milling quality results in a higher percentage of feed generated by the milling process, and requires a greater number of bushels to product the same amount of flour. Allowance for that "fudge factor" could push the bushel requirements slightly higher than the estimate.

In terms of trade policy, the industry is concerned that the Acreage Reduction Program level set by the Secretary, for 1989-90, sends a clear signal to our wheat export trade competitors that the U.S. is growing firmly away from being the production adjuster for world markets. This would argue for a substantially reduced ARP. While it is not the official position of the Federation at this time, a 10% level or lower level has been suggested by two major Federation members also active in the grain trade. Ten percent is mentioned more frequently lately and seems reasonable. Trade policy influence in the debate of ARP is significant.

Since the Federation is the custodian of a long unresolved trade complaint, filed with the GATT in 1975 over European Community export subsidies on flour to third country markets, the experience convinces us of the need for GATT reform. In our opinion a substantially reduced ARP is a form of leverage useful in bringing our trade competitors to the bargaining table in Geneva.

In summary, two principal reasons for a significantly reduced ARP: since the projected carryover for 1988-89 now has slipped below the 800 million bushel mark, only slightly more than domestic grind requirements, it seems that bringing additional acres into production through a reduced ARP is advisable for the use of domestic millers. It is also useful for the message it sends regarding trade policy to those in the European Community watching the U.S. debate on farm policy.

Thank you for the opportunity to offer these comments for the record. The industry feels obligated to be involved in the discussion and appreciates your invitation.

Questions and response follow:

QUESTIONS SUBMITTED BY SENATOR DASCHLE FOR ROY HENWOOD
SENATE AGRICULTURE HEARING MAY 25, 1988

o In light of recent discussions regarding new agriculture products, what tools should Congress provide that would help develop our increased domestic use and what would be helpful for you to export more value added products?

o This committee is currently studying the issue of grain quality. I fully support the pilot program which will provide premiums and discounts for wheat. It is a step in the right direction. As we are trying to increase our market share, quality grain is a major concern for me and to my farmers in South Dakota. Currently, criminal fines of up to $75,000 can be assessed to exporters who violate the 1986 Grain Quality Standards Act. I am asking you, whehter or not this is an adequate deterent for grain sellers or is there some other way we can provide incentives to exporters to provide clean grain?

RESPONSE BY ROY HENWOOD, MILLERS' NATIONAL FEDERATION, TO ADDITIONAL QUESTIONS SUBMITED BY SENATOR DASCHLE

QUESTION 1.

You asked a two-part question about domestic and export use enhancers that might be provided by Congress and about increased demand for wheat foods. As stated elsewhere in my testimony, the increased domestic demand for wheat foods reflects a continuation of the fast food phenomenon which features bread and other wheat foods. More recently, as health conscious consumers seek to increase the percentage of complex carbohydrates in their diet, they draw upon the contributions which wheat foods can make to that dietary mix. Those consumers seek to lower their intake of fats and to increase their intake of dietary fiber. Again wheat foods contribute to that goal.

I have no reason to think that the consumers of other economies have not developed that same awareness, with the result that per capita consumption of wheat-based foods in those nations also will go up, if it hasn't already.

You've asked what tools Congress should provide to encourage increase in domestic consumption. Frankly, I think it's the role of the component sectors of the wheat foods chain to recognize this positive trend and to build upon it. It's not necessary for Congress to involve itself in that area. The wheat foods industry had its experience with a mandated promotional and educational program which was pushed through Congress and the experience was a sour one. When the industry sees the positive role its products play in a healthier diet, it will move to take advantage of that story and increases will be sustained. We have begun to see that process in labeling claims on cereal and bread products now on the market.

What Congress can do speaks to the part of your question about exporting more added-value products. These products sell themselves on dietary merit when all other competitive factors are equal. However, those factors are not equal in third country export markets in which U.S. wheat foods products compete against the European Community. Often in those markets the export subsidies of the Community cause U.S. products to be uncompetitive. It's in that area where Congress must insist that GATT reform remain the principal objective of each U.S. Administration and that the trade policy of the U.S. be consistently opposed to direct and indirect subsidies. Support for the U.S. position in the current Uruguay Round of the multilateral trade negotiation in a bipartisan manner is the single most important contribution the Congress can make to added-value product exports. And until trade liberalization is achieved, it is likely that continued Export Enhancement Program-type initiatives will be necessary to hold the ground until U.S. added-value products can compete on even terms with similar European products. It is only the pressure of those initiatives at the present time and the expense which they cause in the Common Agricultural Policy of the Community that has prompted the Community to discuss the matter of trade liberalization at all in the current Round.

QUESTION 2.

Grain quality is a subject in which Millers' National Federation has been active literally for over 50 years. The Federation history is replete with examples of millers expressing concern through their national organization for the infestation and sanitation of wheat because of the strict sanitary standard to which FDA holds them for the flour they produce.

Progress made these past three years wherein the Federal Grain Inspection Service has advocated and accomplished the tightening of grain standards is the most significant progress in the past several decades in our opinion. The agency and those industry sectors who worked with it are to be commended for this good start. And start is all that it is. If U.S. millers, who grind almost 1/3 of the U.S. wheat crop each year, are thought of as among the most sophisticated of wheat buyers, and if their need to know more about the physical and biological condition of wheat is not yet satisfied, and if foreign millers of

developing nations are rapidly becoming more sophisticated (as they are), then the demand for a descriptive quality standard for U.S. wheat will only increase. And it is demand to which U.S. grain trade will respond.

The educated buyer will demand the quality. We need only to provide the adequate and consistent grading standard by which quality may be specified. And we must educate the buyer to it and instill the confidence in the buyer that the standard is consistent.

The progress these past three years occurred when it was pointed out that other wheat exporting nations were describing quality more precisely and delivering it more consistently, winning markets from the U.S. in the process. That realization was what galvanized the wheat industry into grain standards reform. That action coincided with the effects of the 1985 agricultural legislation which served to lower prices to foreign buyers, turning market share back in favor of the U.S.

The important aspect of the Wheat Quality Workshops, convened by the industry, is that most of the wheat chain was involved in the process. Therefore, the emphasis on quality was not forced on one link of the wheat chain to the detriment of another but was acknowledged and encouraged across the board. I suspect that adjustment of criminal fines will be far less succesful in encouraging quality than education of the foreign customer to his ability to demand, through premium and discount, a consistent quality wheat.

STATEMENT OF WINSTON WILSON, PRESIDENT, U.S. WHEAT ASSOCIATES, INC., WASHINGTON, DC

Mr. WILSON. Thank you, Mr. Chairman. I will make my remarks fairly brief assuming that my full statement can be entered into the record.

Senator MELCHER. Yes. All the statements will be printed in the record in full.

Mr. WILSON. As has been pointed out by Secretary Myers and others this morning, we have had a significant improvement in our export situation. Wheat exports this year are apparently going to be up 60 percent above last year which is certainly something we are very happy to see. It is long overdue.

We are going to be back in a situation of having about 38 percent of world wheat trade from a low point of about 25 percent back in 1985–86. Certainly we like this trend that is being established, and we want to see it continue. We are going to have about 15 million more metric tons of wheat exports this year than we had last year.

But there is something, I think, that is very significant that we need to keep in mind about the better export news. No. 1, our estimate is that almost 70 percent of wheat exports will be moved under the Export Enhancement Program.

Second, this 15 million more metric tons increase this year is offset by 17 million tons sales to the Soviet Union and the PRC. Both of these markets did not buy any wheat from the United States last year. So that says two things. The Export Enhancement Program is extremely important not only from a strategic war upon the European Community concept but also in terms of our total export numbers, and secondly, we are heavily dependent this year for our good market news on the Soviet Union and the People's Republic of China.

Consequently, a successful completion of another long-term agreement is extremely important with the Soviet Union. We do need that market. We are probably at this point not so optimistic as to expect another 13-million-ton sale to the Soviets next year, but certainly we need a significant one.

I would like to conclude with just a couple of remarks on something that Senator Daschle raised earlier concerning the recent publicity on the Targeted Export Assistance Program. As a participant in that program and as immediate past chairman of the U.S. Agricultural Export Development Council, I would comment that I think many of the concerns raised in the GAO study were early in the program, and a lot of problems developed at that time because Congress did not approve the program until fairly late in the fiscal year.

There was a need to spend some money very quickly. USDA did not have sufficient lead time to get the program developed and in operation. We do have some time behind us now, and I think the program has been working very well.

Certainly I know from the experience of U.S. Wheat that there is significant oversight and auditing of that program. So I think the situation is much improved from some of the circumstances that GAO discussed. And with that, I will conclude my remarks and be happy to address any questions you might have.

Senator MELCHER. Thank you, Winston.
[The prepared statement of Mr. Wilson follows:]

STATEMENT OF WINSTON WILSON
PRESIDENT OF U.S. WHEAT ASSOCIATES, INC.

Mr. Chairman and members of the Subcommittee, it is indeed an honor to participate in this hearing to examine the outlook for U.S. wheat exports. I am Winston Wilson, President and chief executive officer of U.S. Wheat Associates, which is the market development organization representing U.S. farmers in overseas export markets. U.S. Wheat Associates carries out this program in cooperation with the Foreign Agricultural Service of the U.S. Department of Agriculture. Our programs are jointly funded by wheat farmers and the Department of Agriculture and have been on-going for more than 25 years.

At the present time, we have thirteen overseas offices, and we are supported by wheat producers in sixteen states through their checkoff funds. In an average year we would carry out promotion projects in about 100 countries.

As you are aware, we do not lobby since we receive funds for market development from the Foreign Agricultural Service. The National Association of Wheat Growers handles lobbying for wheat producers although we are occasionally called upon to provide information regarding export issues related to wheat.

While U.S. wheat exports have suffered in recent years, the current year has been very successful, with exports for 1987-88 expected by the end of this month to reach about 1.6 billion bushels which is about 60% above last year. This is the second best level ever for wheat exports, with the record being 1.77 billion bushels exported during 1980-81.

An important indicator of the strong export trend has been the drawdown on wheat stocks from 1.82 billion bushels last year to 1.231 billion bushels this year. USDA projects that the carryover will decrease further during the 1988-89 marketing year and be 796 million bushels by June 1, 1989. This is a reduction in carryover of about a billion bushels in just two years.

For the new crop year beginning in June, USDA has projected U.S. wheat exports at 1.5 billion bushels. This is not an unrealistic target, but it assumes a great deal when there are many uncertainties ahead. At this point, we are only beginning to get a good look at the crop picture for the year. The Soviet crop prospects, at this stage, look much better than last season, and the Australian projections have also improved over last year. In the United States, we have had dry conditions last fall and into this year in the Pacific Northwest, but recent rains lead us to expect at least an average crop will be produced in that region. Our Upper Midwest is still showing signs of dryness, and these same conditions are affecting the Canadian outlook.

The unknown, however, is the quality factor, and this is often not clear until near harvest time. Last year, the European Community produced a good crop in terms of the volume, but the quality was severely damaged by rainfall at harvest time. This

problem affected the Scandinavian countries, Western Europe and the Soviet Union, providing the United States with an excellent opportunity to sell its quality milling wheat.

I should point out also that the continued availability and vigorous use of the Export Enhancement Program (EEP) is vital to the continued success of our wheat export efforts. This program has been effectively used to regain market share although there are a few additional countries such as Indonesia and Venezuela which we feel should be offered EEP consideration. The continuation of the EEP program is absolutely necessary in order to meet the competition of many of our competitor countries who have subsidized their wheat exports or engaged in other practices which are too numerous to mention here. Any success that takes place under the GATT round is also likely to result from the continued use of the EEP.

As most of you know, the United States and the Soviet Union are currently in the process of attempting to develop a new long term agreement (LTA) which would continue the framework on grain trade that has existed between the two countries for about a decade. This agreement is of real importance to U.S. wheat growers since in the wheat trade we face a number of competitors for the Soviet wheat market. In the case of other grains, the U.S. has a more dominant position, but with wheat, we have to fight and earn our market every year. Thus, we could go from selling the Soviets 12.8 million tons, as happened this year, to zero in another year without some minimum tonnage as provided in the LTA. We also need to be competitive on price and keep our political relations on an even keel, but an LTA can help prevent extreme fluctuations from one year to another. We hope that a new LTA can be developed, and that it will provide a yearly minimum tonnage purchase level and also give the Soviets ample flexibility to buy more as their needs require.

There also is a new GATT round underway, and there has been some expectation that a preliminary agreement might be reached by the end of this year. While that effort is being made, it does not seem likely at this point that anything very specific can be agreed upon. We do not know what to expect from the new GATT round, but it appears that the European Community is very reluctant to make the kind of concessions that had been hoped for by the Administration. We will certainly need to continue to follow the progress of these negotiations.

I would also be remiss if I failed to point out that a new Administration will also be an important factor in the wheat export market in the year ahead. We do not know whether the present policies will change, and these decisions will clearly be an important factor in coloring the outlook for U.S. wheat exports. We believe that one absolutely essential feature of a new Administration's wheat policy ios the continuation of the Export Enhancement Program until substantial progress is made in GATT. The GATT round could begin to make some progress once the new Administration is in place and had an opportunity to develop its policies.

In conclusion, I would like to thank the members of this subcommittee and the full committee for the strong support that we have received from the Congress on wheat export promotion. A great deal of progress has been made, and we are optimistic in spite of the many uncertainties. We are grateful for your support, Mr. Chairman, and I would be prepared to answer any questions. Thank you.

Senator MELCHER. First of all I think I will start with you, Winston, because I will go back that way. You have 13 offices around the world. Which one serves Indonesia, or do you have——

Mr. WILSON. Indonesia is serviced out of the Singapore office.

Senator MELCHER. Out of Singapore. So in Southeast Asia you have both Manila and Singapore?

Mr. WILSON. Yes.

Senator MELCHER. Nothing in India?

Mr. WILSON. Yes, we have an Indian office also in New Delhi.

Senator MELCHER. That would be a subcontinent. I guess that is not Southeast Asia.

Mr. WILSON. The Indian office strictly services India though.

Senator MELCHER. Yes. All right. So what is the potential in Indonesia? An Indonesian banker told me a few weeks ago that they milled 5 million tons of wheat a year. Is that correct?

Mr. WILSON. It is a significant market. The United States has had up to as much as 40 percent of that market in some instances, and we have been doing virtually zero in there the last couple of years.

Senator MELCHER. Do you know whether they actually handle 5 million tons, or is this banker exaggerating?

Mr. WILSON. That is a little high.

Senator MELCHER. Is it closer to to 2 or 3 million?

Mr. WILSON. It is 2 to 3. I could get that data, but I do not have it at the tip of my fingers.

Senator MELCHER. All right. I think the Department's figures are around 3 or 2.5.

Mr. WILSON. It is a significant market. Well, it is also potentially a very significant market because it has a population roughly the size of the United States. The economy is moving along fairly well, and there is a general trend upward in wheat consumption in that country, and we have been carrying out several projects to get wheat consumption pumped up in Indonesia.

Unfortunately, the last couple of years, the Europeans and the Australians have sort of divvied that one up. We believe that it is important to get an EEP for Indonesia. The problem is that we have certain difficulties with State and STR because even though they are buying from the European Economic Community, they are also buying some Australian wheat.

And every time the Aussies feel a little hurt, well the Prime Minister runs to Washington, and there is not a dry eye in the place when he leaves. We do not feel that they should get quite that much consideration, but that is the way the world programs work.

Senator MELCHER. Well, they export a lot of flour out of Indonesia. That is my understanding. They are not just milling for themselves. They are milling for export also.

Mr. WILSON. Actually, Senator, that has been a bit of a problem because Indonesia has been a recipient of, I think, it is approximately $10 million worth of P.L. 480 wheat over the years.

And one of the requirements of recipients of P.L. 480 is that they cannot export the flour, end products of that wheat. So they have not been exporting a great deal of flour. This requirement has

been, in some instances, in other countries waived from time to time.

However, Mr. Henwood's members seem to get very nervous when they think about Indonesians exporting flour. So to this point I do not think they are exporting the flour. It may be that they will change their P.L. 480 to some other commodity just in order to be able to be in a position to export flour. We would not like to see that.

Senator MELCHER. What about Nigeria? What office would service Nigeria?

Mr. WILSON. That is currently serviced out of our Rotterdam office. Nigeria has banned the import of wheat for the past 3 years. That is a decision made by the Nigerian government, and you are right. It was a very good market, the largest market in sub-Saharan Africa. We keep hoping that this situation will change.

There was an offer, an EEP offer made to them, I think, in January of last year, a half million tons. The Nigerians said no, we are not going to import wheat. I believe that is going to change shortly.

There is an amazing amount of flour currently being smuggled across the border from their neighboring countries, and I suspect sooner or later they are going to have to start importing wheat again and grinding their own flour.

Senator MELCHER. India is now using U.S. wheat under Export Enhancement sale?

Mr. WILSON. They have a 1.2 million ton Export Enhancement authorization at this point.

Senator MELCHER. I have one final question for you. There are 13 offices in an expanding market for U.S. wheat, would you have more offices if you had more funding?

Mr. WILSON. We are in the process of looking to establish another office in West Africa to service sub-Saharan West Africa where that is a market that we are finally breaking into.

Frankly, most of our offices are regional offices and they are located in, we think, fairly strategic positions. Additional funding probably would mean more staffing but not necessarily more offices because we are working about 100 countries. Obviously, we cannot put an office in every one of those countries, but the regional concept works quite well.

But the big problem is affording enough staff people, particularly Americans overseas because this is fairly expensive, particularly with the weak dollar now, to really service those regions the way we want to.

What happens is that some of our people are spending 42 or 43 percent of their time on the road, and that is tending to cause some burnout which is of major concern to us.

Senator MELCHER. You are not handicapped by any requirement that you cannot hire nationals?

Mr. WILSON. We can hire within budgetary consideration, we can hire local nationals. Our basic philosophy has been, though, that we want some Americans out there. We are an American organization representing American farmers, and we happen to think there are certain inherent benefits in having a U.S. citizen being the one to call on the customer most of the time.

Senator MELCHER. Well, I agree with you. Foreign Agriculture was restricted, I believe, from hiring any nationals. I think we loosened up on that.

Mr. WILSON. I think that is a budget problem that they have, and the ceiling, and that is a problem. FAS has had their workload almost increased by a factor of three, I would say, since the 1985 farm bill because they have all these programs to run, and they really have just about run out of people to do it. And it is a big problem.

Senator MELCHER. There is a trade mission in Indonesia I believe this week.

Mr. WILSON. Yes. Nelson Denlinger from our Washington office is along.

Senator MELCHER. He is on that mission.

Mr. WILSON. Yes.

Senator MELCHER. We will be interested to hear from Nelson when he returns. All right. Now, Mr. Henwood, you want P.L. 480 at least maintained at about the same level. I suspect section 416 does not do you any good, does it?

Mr. HENWOOD. It has not to date, no.

Senator MELCHER. Because it cannot be value-added product.

Mr. HENWOOD. At least that is how it has been interpreted by USDA to date. We would like to see it go into the added value obviously.

Senator MELCHER. I think we ought to change that at least as far as wheat and corn products are concerned. I think that an area we have been negligent here in Congress. I think we ought to make 416 cover at least wheat and corn products, and I do not know how many others, but at least those two.

Mr. HENWOOD. You have my vote.

Senator MELCHER. I have your vote. All right. It gives us more flexibility. It would give the Department more flexibility on how they handle it.

Carl, Mr. Henwood said at least the discussion among the millers was the set-aside should be 10 percent or lower. We understand that that is not the Federation's position. You have not taken a position, but that has been in the discussion. It has been 10 percent or lower rather than 10 percent or higher.

How does NAWG feel about that?

Mr. SCHWENSEN. I think the consensus in our organization has been for a level of about 15 percent, Senator. That is a level we are comfortable with. We feel it is going to generate adequate supplies for our domestic markets and what the probable level of exports might be.

We are fearful of a backlash. We have seen that we can create a surplus in our market very quickly. In 1 year or 2 years, we can add 600 million bushels to our excess supplies, and having just come through a long period of large supplies and low prices, we have a certain degree of anxiety about making decisions that might swing us back into that situation once more.

Senator MELCHER. I asked Pete Myers earlier if under what circumstances would producers want to take wheat out from under Farmer-Owned Reserve storage, and probably under existing

market conditions there is no circumstance where they would want to do that; is there?

Mr. SCHWENSEN. Not unless the price got up to the release level.

Senator MELCHER. Yes. It would just have to get up to that $4 level before they would want to do that. And so while there would be reduction undoubtedly to the 300 million required by the statute to be kept in Farmer-Owned Reserve, whatever level it is at now, it will go down to that as the loans become due; is that correct?

Mr. SCHWENSEN. Yes, that is correct, Senator. As loans mature, they will be cycled into CCC, catalogued and then probably go back into the market under the auction program.

The 300 million bushel minimum that is in that statute is not absolute. It can go below that, but once it goes below, then the Secretary is required to create incentives to cause producers to bring it back up to the minimum level.

Senator MELCHER. Has the Wheat Growers looked at this projected market price for the 1988 crop? If so, are you in general agreement with the Department's projection? It is a pretty broad range.

Mr. SCHWENSEN. It is a pretty broad range. The midpoint is $3. Some private analysts are looking at a season average price of $3.25. The 5-day average price right now is $2.92 so there is a good deal of steam in the market right now, and it is very possible that USDA's midpoint could be exceeded in terms of the season average price.

Senator MELCHER. On balance, the position of the Wheat Growers is a little bit cautious right now about how much the set-aside should be. You know it could be no higher than 20.

Producers are looking at about 15 as probably being low enough. The more the set-aside is reduced, however, the more potential for deficiency payments and therefore farm income there is. And they have to weigh that, I suppose, against the possibility of a buildup of surplus; is that what you are saying?

Mr. SCHWENSEN. That is correct, Senator. I think they would rather have 1989 production generate a little bit too much wheat than too little wheat. We want to be able to make sure that we can supply the markets that Winston is working in, and that other programs are operating in.

So we do not want to create a situation where our supplies are so tight that we cannot meet the demand that exists.

Senator MELCHER. Well, we are harvesting wheat now for the 1989 crop, I take it, are we not?

Mr. SCHWENSEN. It should be starting——

Senator MELCHER. I mean 1988 crop.

Mr. SCHWENSEN. It should be starting down in Texas right now.

Senator MELCHER. And so June 1, the Secretary makes an announcement on what the set-aside is for the 1989 crop. However, he has another 60 days to alter that, does he not?

Mr. SCHWENSEN. That is correct.

Senator MELCHER. And during that period of time you people, the National Association of Wheat Growers, will be commenting to the Secretary again, will you not?

Mr. SCHWENSEN. Yes, we intend to, Senator.

Senator MELCHER. And let us see, 60 days would be the end of July, and if he can make that announcement, final announcement,

and say what it is by July 25, even July 30, we are not hurt, are we, as producing?

Mr. SCHWENSEN. Well, our ambition is to get the final announcement as early as possible. We see some deterioration taking place in terms of U.S. crop prospects. We are wondering whether the Soviet crop is going to be as good as the last crop report indicated. So there are some things that are worth consideration.

But the earlier the final dates the better off wheat farmers will be.

Senator MELCHER. In other words, you are kind of shooting for July 15 then; is that about right?

Mr. SCHWENSEN. I think that would be safe.

Senator MELCHER. All right. Winston, one final question about what is going on in export. I understand there is a pretty good potential in Venezuela for Durum or Spring wheat. Has there been a tender under the Export Enhancement Program to Venezuela?

Mr. WILSON. No, sir. We have tried everything we know to get an EEP announced for Venezuela. Our good friends, the Canadians, evidently lobby at least some branches of our Government a little better than we do. This has been rejected by the review group, the Trade Policy Review Committee, which is the group that Secretary Myers mentioned that reviews Export Enhancement Programs.

They have rejected this proposal at least twice. It is our view the Canadians have displaced significant quantities of U.S. sales into Venezuela. In fact, they have just about taken the market. The Office of the U.S. Trade Representative, 2 years ago, proclaimed the Canadian rail subsidy an export subsidy.

Therefore, from our view, they are subsidizing exports, but to this point we have been unsuccessful in getting an Export Enhancement Program for Venezuela. The only thing I know left to do is to talk them into buying some wheat from Europe, and then I guess we can get that done.

Senator MELCHER. Well, this disturbs me a little bit.

Mr. WILSON. It disturbs me a lot.

Senator MELCHER. It seems to me in the old charts I used to look at Venezuela was one of the markets that we used to have that was good for over 1 million.

Mr. WILSON. It is a major Spring wheat market.

Senator MELCHER. It was good for more than 1 million tons of wheat; was it not?

Mr. WILSON. Yes, Senator.

Senator MELCHER. And did we lose it all? Did we maintain any of that?

Mr. WILSON. We show about 300 million bushels of wheat sales to Venezuela this year.

Senator MELCHER. About how many?

Mr. WILSON. About 300 million—I mean 300,000 tons. I am sorry.

Senator MELCHER. 300,000.

Mr. WILSON. However, that took place very early in the year. There have been no U.S. sales in that market for several months now.

Senator MELCHER. This is precisely the circumstances that I am talking about, that I was talking about earlier regarding the Free-Trade Agreement with Canada. We are in competition with them

in whatever Venezuela might buy from us as compared to what they buy from Canada.

We have not offered Venezuela an Export Enhancement sale, and it would appear to me that the only reason we have not is simply because we do not want to offend Canada.

Mr. WILSON. Well, that is my impression because we have right now, as of last week or 2 weeks ago, we have sold 418,000 tons of wheat to Venezuela. A year ago that same time period we had sold almost 850,000.

And last year was down significantly from the year before, and basically we have been displaced there through some rather interesting sales techniques that I will not go into.

And we have to this point been unsuccessful in getting approval of an Export Enhancement Program. I am fairly certain that USDA has worked very hard to try to get this done, but they have been unsuccessful in getting the Trade Policy Review Committee to sign off on it.

Senator MELCHER. It was unfortunate because it was our intent that in the Export Enhancement provisions they be very aggressively pursued. Yes. Go ahead, Roy.

Mr. HENWOOD. I was just going to say, Senator, that we have had some discussions about the so-called transparency—the buzz word that is used—but the transparency of the Canadian Wheat Board operations with respect to the Free-Trade Agreement.

Under that two-price system that they have up there the wheat goes into the control of the Canadian Wheat Board and then we lose track of it altogether. Some magic is performed over it, and out of the other end of the black box comes a couple of prices. No idea what they are keyed to. No idea what they relate to. I wonder if there is not some way in the FTA discussions, and you will have to advise me on this, that we can get a certain transparency into those operations, so that we can judge as U.S. entities in the market whether we are being fairly treated with respect to this parity idea that we are trying to get on both sides of the border on ag products.

Key their operations maybe to a domestic market, to our exchanges somewhere, Chicago, Kansas City, what have you, but find some way to know what the operations of the CWB are. And I am afraid it is only a concept with me, but we have discussed it with our friends in Ottawa. We will actually go to Ottawa in the future to talk about it further.

Depending on what comes up there we may ask you to wade in on it to the extent that you can do so at this late date.

Senator MELCHER. Well, I am very much of the opinion that this language, taking into account Canada's export interests and prejudicial effect on Canadian exports, is clearly contrary to the interests of U.S. wheat producers.

After all, those are terms that will be used by one side or the other, one government or the other. Naturally we can compete with Canada on the cost of production or bushel. We can compete. We do not have any problem with that.

But individual farmers certainly, individual farmers and collectively cannot compete with governments that establish what the price is going to be in an export sale. And so we have to rely on our

own Government and be hamstrung by such language and what is called a Free-Trade Agreement is not very conducive to my interest in supporting it.

In fact, it stirs my opposition to it. Unless there is substantial change in the language of the treaty, I am going to oppose it every way I can. Now maybe it is impossible to change the language. I do not know why it would be personally. They are not very far away from us.

And they want such an agreement ratified and implemented. Then I would hope that it is changed. Putting the additional language in the understanding of what it means is not as good as changing their language in the treaty itself.

I have a hard time with this. There is a lot of shortcomings in the agreement as far as the U.S. producers are concerned, not just in agriculture but in other commodity productions, in mining and in energy commodities also.

So this just adds another very sharp point of disagreement with me on whether it would be advantageous for our two countries. I see it weighted heavily to protecting Canada's interests, and a case in point, even without the treaty, is this reluctance by the Department of Agriculture and this committee where State and Treasury and AID and OMB are involved in approving an Export Enhancement sale to Venezuela is simply a case in point.

And to add another hurdle to what we have already have in place seems to me to be too many hurdles. I would hope that we would continue this very aggressive policy of exporting our surplus, that we do continue to use the Export Enhancement Program because it has been the most successful export program we have had in our times, well, in this era. I do not know what happened before. But we just simply had exports 50 years ago that were not impeded so much by government action.

But now it is everybody's government that is impeding export sales, and we have to be part of that competitive world. Our farmers cannot arrange that so it is our Government that has to. And I think we have to be very cautious about this treaty with Canada.

I noticed your letter, Carl. I did not read it as an endorsement. I read it as an argument for some further agreements other than in the body of the language of the treaty itself. Is that correct?

Mr. SCHWENSEN. Thank you, Senator. That is the way we intend it to be read. We feel like there have been some substantial changes in the text of the agreement, and the administration has been very forthcoming.

They have worked very closely with us to try and alleviate some of our concerns, but not all of our concerns have been alleviated nor can they be because of the inability to reach into the agreement itself and make some structural changes.

Senator MELCHER. All right. Thank you all very much. We appreciate your testimony today and your willingness to work with us on these programs. Thank you. We also will have included in the record a statement by Senator McConnell and a statement by the National Grain Trade Council.

[The prepared statement of Senator McConnell can be found on page 78 and the prepared statement of the National Grain Trade Council follows:]

SUBMITTED FOR THE HEARING RECORD

STATEMENT OF THE

NATIONAL GRAIN TRADE COUNCIL

BEFORE THE
SUBCOMMITTEE ON AGRICULTURE PRODUCTION
AND STABILIZATION OF PRICES
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

ON THE
WHEAT SUPPLY AND DEMAND SITUATION

MAY 25, 1988

Mr. Chairman and Members of the Subcommittee:

The National Grain Trade Council appreciates this opportunity to provide its comments on the wheat supply and demand situation, with a view toward the 1989 wheat program. The Council sees a wheat situation where demand is exceeding domestic production. This is leading to substantially reduced stock levels in the short-term and clearly is not a sustainable situation over the long-term. As USDA formulates the provisions of the 1989 wheat program, the Council strongly recommends an acreage reduction program (ARP) level between zero and 10 percent.

The Council is a national trade association whose regular members include grain exchanges, boards of trade, and national grain marketing organizations. The Council has a number of associate members that include grain companies and related businesses.

Council members are active participants in the wheat marketplace and they find demand recovering, thanks largely to the Export Enhancement Program (EEP).

In general, the Council wishes to acknowledge the responsible manner in which the Department of Agriculture has managed domestic wheat stocks. Although our members prefer government's role in the marketplace to be minimal, they would agree that aggressive use of EEP has enabled U.S. grain to be priced competitively in the world marketplace. And in tandem with other programs, EEP has reduced domestic stocks and the costs associated with maintaining supplies, enabled the nation to recapture market share in world grain trade, and provided a strong stimulus to the businesses that market and handle agricultural products. The Council also believes the aggressive movement of wheat supplies into the marketplace clearly demonstrates the United States' resolve to be a force in world grain trade.

More specifically, with the assistance of the EEP, the United States is recovering from the disastrous export levels experienced in crop years 1985/86 and 1986/87 when the nation exported 848 million to 920 million bushels of wheat per year. In the 1987/88 crop year, the United States saw exports rebound to 1.6 billion bushels which is more consistent with the nation's market share average over the last 10 years of 1.4 to 1.5 billion bushels.

The economic well-being of agriculture depends on a strong export performance. It is imperative that the United States not only maintains its traditional export level, but expands exports to meet increasing world import demand. To achieve this, the United States must retain policies that keep U.S. wheat competitive in world markets.

As U.S. exports return to more traditional levels, stocks rapidly decline. By June 1, 1989, U.S. wheat supplies are expected to be close to the minimums set by law: 147 million bushels in the Food Security Reserve and 300 million bushels in the Farmer-Owned Reserve. In this tight supply situation, it is unlikely USDA will be able to provide government wheat stocks to the marketplace to the same extent as it did this year.

With carryout in 1988/89 projected at 796 million bushels and with the minimums in government programs, only about 175 million bushels will be left as "free" stocks. That level is well below the levels regarded as dangerously low in the early 1970's.

The annual U.S. domestic wheat disappearance has averaged 1.1 billion bushels for the last 5 years. With exports at 1.5 billion, this makes a total useage of 2.6 billion bushels. U.S. production for 1987/88 was 2.1 billion bushels and USDA is anticipating just under 2.2 billion bushels in production for 1988/89. This means the U.S. production is 400 to 500 million bushels shy of useage.

In summary, for the 1988/89 crop year the following situation is projected:

exports	1.5 billion bushels
domestic use	1.1 billion bushels
total use	2.6 billion bushels
production	2.2 billion bushels
shortfall	400 million bushels

To meet this production shortfall of 400 to 500 million bushels requires returning to production roughly 12.5 million acres, assuming a harvest of 40 bushels per acre. In 1988, the 27.5 percent ARP will set aside approximately 20 million acres. Therefore, if the additional production from 12.5 million acres is needed, the 1989 ARP level can not be over 10 percent.

There are a number of other factors that argue for an ARP between zero and 10 percent:

- The European Community (EC) has increased its agricultural budget outlays for 1988-92, which should help maintain high wheat output, as well as sizable funding for the Community's export subsidy program;

- Canada has raised its initial price supports for the 1988 wheat crop, which should tend to encourage production; and

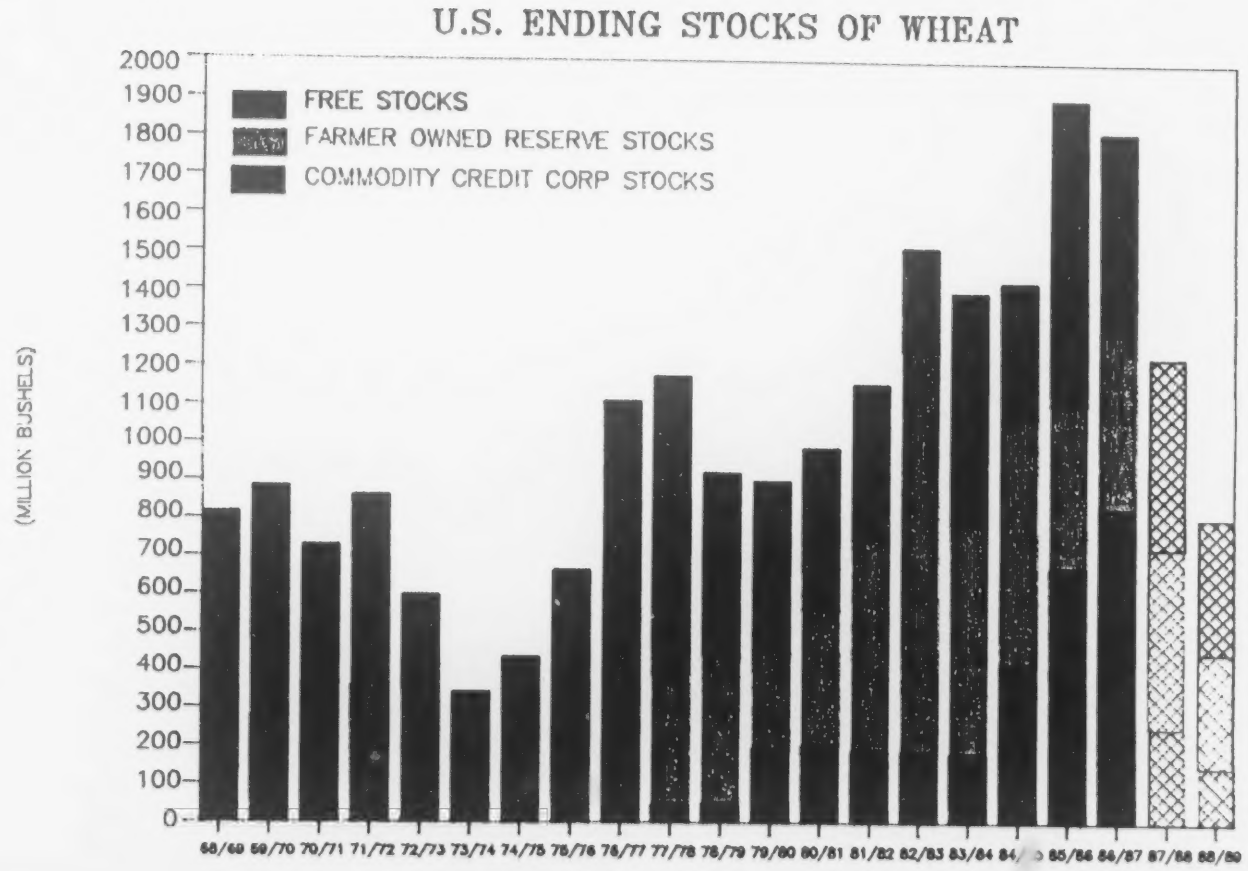
- Governments in Australia and Argentina have called for larger 1988 seedings.

In light of all these factors, the Council believes it is very important that the United States start easing up on wheat production control policies. If domestic production control efforts are maintained at current levels, our nation will abandon its competitive position, thereby encouraging competing nations to move into markets we have abdicated. In short, the United States needs more supply to maintain its market-oriented approach.

Simply stated, any level of ARP above 10 percent will require some rationing and forfeiture of hard-fought export gains back to competitor nations. It will also invite competitors to expand production and to provide additional exports.

The National Grain Trade Council, therefore is strongly recommending that wheat acreage set-aside requirements for 1989 be lowered from the current level of 27.5 percent to no more than 10 percent. The Council would suggest that even a zero set-aside could be justified with a commitment for an even-more aggressive Export Enhancement Program. Suffice it to say, though, a lower acreage set-aside requirement is essential if this nation is to continue its market-oriented thrust and if it is to remain competitive in the international wheat marketplace.

Attachments follow:


U.S. ENDING STOCKS OF WHEAT
FREE STOCKS
FARMER OWNED RESERVE STOCKS
COMMODITY CREDIT CORP STOCKS
(MILLION BUSHELS)
2000
1900
1800
1700
1600
1500
1400
1300
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
68/69 69/70 70/71 71/72 72/73 73/74 74/75 75/76 76/77 77/78 78/79 79/80 80/81 81/82 82/83 83/84 85/86 86/87 87/88 88/89

U.S. WHEAT SUPPLY/DEMAND BALANCE
(MILLION BUSHELS)

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	FORE. 87/88	PROJ. 88/89
PLANTED (MIL ACRES)	66.0	71.4	80.8	88.3	86.2	76.4	79.2	75.6	72.1	65.8	65.1
HARVESTED (MIL ACRES)	56.5	62.5	71.1	80.6	77.9	61.4	66.9	64.7	60.7	55.9	56.2
HARVESTED/PLANTED	85.6%	87.5%	88.0%	91.3%	90.4%	80.4%	84.5%	85.6%	84.3%	85.0%	86.4%
YIELD (BU/ACRE)	31.4	34.2	33.5	34.5	35.5	39.4	38.8	37.5	34.4	37.6	38.6
PRODUCTION	1776	2134	2381	2785	2765	2420	2595	2425	2092	2105	2170
CARRYIN	1178	924	902	989	1159	1515	1399	1425	1905	1821	1231
IMPORTS	2	2	3	3	8	4	9	16	21	15	15
TOTAL SUPPLY	2956	3060	3286	3777	3932	3939	4003	3866	4018	3941	3416
FOOD	592	596	611	602	616	643	651	683	724	750	775
SEED	87	101	113	110	97	100	98	93	84	85	95
FEED	158	86	59	135	195	369	405	270	385	275	250
TOTAL DOMESTIC USE	837	783	783	847	908	1112	1154	1046	1193	1110	1120
EXPORTS	1194	1375	1514	1771	1509	1429	1424	915	1004	1600	1500
TOTAL USAGE	2031	2158	2296	2618	2417	2540	2578	1961	2197	2710	2620
ENDING STOCKS	924	902	989	1159	1515	1399	1425	1905	1821	1231	796
ENDING STOCKS/USAGE	45.5%	41.8%	43.1%	44.3%	62.7%	55.1%	55.3%	97.1%	82.9%	45.4%	30.4%
CCC	51	188	200	190	192	188	378	602	830	250	
LOAN	122	99	55	112	65	379	175	678	236	175	
RESERVE *	403	260	360	560	1061	611	657	596	632	475	
FREE	348	355	375	297	197	220	216	29	123	331	
FREE END. STKS/USAGE	17.1%	16.5%	16.3%	11.3%	8.2%	8.7%	8.4%	1.5%	5.6%	12.2%	
LOAN RATE	2.35	2.50	3.00	3.20	3.55	3.65	3.30	3.30	2.40	2.28	2.21
TARGET PRICE	3.40	3.40	3.63	3.81	4.05	4.30	4.38	4.38	4.38	4.38	4.23
K.C. ORD. HRW	3.38	4.25	4.45	4.27	3.97	3.83	3.74	3.28	2.72	2.96	3.28
K.C./LOAN	144%	170%	148%	133%	112%	105%	113%	99%	113%	130%	148%

* Reserve includes any quantity in Special Producer Storage Loan Program.
MAY 11, 1988

Senator MELCHER. The subcommittee is adjourned.

[Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 10:04 a.m., June 23, 1988, in room SR-332, Russell Senate Office Building.]

COMMODITY SITUATION AND OUTLOOK

The Barley and Oats Situation

THURSDAY, JUNE 23, 1988

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room SR-332, Russell Senate Office Building, Hon. John Melcher, chairman of the subcommittee, Hon. Kent Conrad, presiding.

Present or submitting a statement: Senator Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. This hearing before the Subcommittee on Agricultural Production and Stabilization of Prices of the Committee on Agriculture, Nutrition, and Forestry will come to order.

This morning, we are conducting a hearing on the barley and oats situation facing the country, and we will hear first from Mr. William Bailey, the Deputy Administrator, Program Planning and Development of ASCS.

Is Mr. Bailey here? You can join us up here, if you will. Welcome. Good to have you here, and as always, we will take your statement. If you would summarize what you have prepared, then we will certainly include your full written statement in the record and have a chance for questions.

STATEMENT OF WILLIAM C. BAILEY, DEPUTY ADMINISTRATOR, PROGRAM PLANNING AND DEVELOPMENT, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DAVID B. HULL, COMMODITY ANALYSIS DIVISION, ASCS, USDA

Mr. BAILEY. Thank you, Senator. Accompanying me is David Hull with our Commodity Analysis Division.

In my prepared statement, we address barley and oats, obviously, and the situation between the two commodities is a sharp contrast: surpluses on the one hand and imports on the other.

BARLEY MARKET SITUATION

Barley is a small grain for which the primary use is as a livestock feed. As a livestock feed, and in certain other uses such as

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ethanol production, barley competes with corn in those uses. Malt production is another important market for barley. Recent barley crops have been harvested from 10 to 12 million acres, versus 60 to 70 million acres for corn, and the yield per acre for barley has been less than half that for corn. Consequently, barley supplies and markets are dwarfted by those for corn. However, in a relative sense the surplus for barley has been as important as the surplus in corn and wheat.

For 3 straight years—1984, 1985, and 1986—the barley crop was record large or near record. Largely as a result of this, U.S. carryover stocks have been at record levels. Stocks of barley on June 1, 1987, were 336 million bushels, 3 percent larger than the previous record a year earlier. This represented 55 percent of annual use.

In the face of these record supplies, the U.S. market has faced sluggish demand, particularly overseas. U.S. barley exports vacillated between roughly 50 to 100 million bushels per year in the early 1980's and then plummeted to a dismal 22 million bushels in 1985-86 marketing year.

In 1986-87, provisions of the Food Security Act of 1985 began to take effect. Lower levels of price support, access to stocks through commodity certificates, and the Export Enhancement Program have again made U.S. barley competitive in the world market. In 1986-87, the first year under the farm bill, exports rebounded from the 22 million bushel range to 137 million bushels, a six-fold increase from 1985-86. In 1987-88, exports remained strong, totaling 130 million bushels.

Increased exports to Saudi Arabia account for most of the increase in U.S. barley exports in 1986-87. While Saudi Arabia remained our primary market in 1987-88, exports to other Mideastern and North African countries have replaced some of the Saudi Arabian market.

With the combined effects of the acreage reduction programs, competitive price supports, and demand enhancement program, June 1, 1988, stocks are estimated to be down 11 percent from a year earlier.

We see a similar decline in stocks for June 1, 1989, even before the effects of current weather conditions are taken into account. Stocks are projected to be about 51 percent of use while lower than the previous 2 years, it is still high relative to the long-term average of near 40 percent stock to use relation.

Senator CONRAD. Can I just stop you there and ask you when was that analysis done?

Mr. HULL. June S&D report.

Mr. BAILEY. This reflects June S&D. As a result, it does not reflect the more current adverse weather conditions which have taken place since that analysis.

Senator CONRAD. So this analysis could be badly outdated in terms of the drought we are experiencing this last month.

Mr. BAILEY. Yes, sir. The trend is there that stocks are going to go down, with the potential for lower yields, appreciably lower yields.

Senator CONRAD. When will the next look be taken to factor in the drought we are experiencing now?

Mr. BAILEY. Traditionally, we do not make any projections until August.

Mr. HULL. That is right.

Mr. BAILEY. At that time, we have a much better handle on what the crop will be.

Senator CONRAD. We are going to have a pretty good idea mid-July, I would think. Certainly in my State, which is one of the major barley producers, given what is happening there now, there will not be much of a barley crop.

Mr. BAILEY. Yes, sir.

Senator CONRAD. It looks like we are over 50 percent loss now, regardless of what would happen today. And that has got to have, given conditions across the other prime growing regions, dramatic effect on the estimate that was done for the June report.

Mr. BAILEY. Yes, sir. As we look toward a 1989 crop, what has transpired this month and what will transpire over the next few months will have a very dramatic impact in what sort of decisions we make for 1989.

Senator CONRAD. All right.

OAT MARKET SITUATION

Mr. BAILEY. Switching to oats, we go from a situation of chronic surpluses to one of what can we do to get people to grow more oats.

The situation for oats in the United States is very different than that for other major crops, as oats have remained in short supply in the past several years despite record yields and high prices. Oats are the only major U.S. grain market which must rely on imports to provide an adequate supply.

Like barley, oats are a small grain for which the primary demand is a livestock feed. So, oats compete with other major grains, primarily corn, sorghum and barley in feed rations. Today, horses and dairy cattle are the main consuming livestock unit groups for oats. Additional demand for oats is production of foods for human consumption, such as oatmeal, granola foods, and other breakfast cereals.

U.S. production of oats has experienced a long-term decline for several reasons. Oats have generally been less profitable than other cash crops such as soybeans, wheat, corn, and barley. Also, farms have become more specialized, producing either cash grain or livestock. Whereas, in the past, oats were a popular source of feed and bedding for horses, mules, and other livestock. Oats today continue to be planted for purposes other than for cash grain. These purposes include straw, pasture, forage, conservation, and as a companion crop with the establishment of the legume such as alfalfa.

The entire U.S. oats crop has been harvested on 7 to 10 million acres each year since 1980. The largest crop in the 1980's was 593 million bushels harvested in 1982, and the smallest crop was 374 million bushels harvested last year.

Consequently, carryover stocks of oats have been tightening because of the declining production. Stocks were 133 million bushels on June 1, 1987. This was down 28 percent from a year earlier and represents 28 percent of annual use. Whereas, barley represented 55 percent annual use, oat carryovers represent about a quarter.

Imports of oats have again become important to the market in recent years. It is interesting to note that although imports were negligible in the 1960's and 1970's, they were at one time quite substantial in several years during the 1950's.

After small annual imports of 1 to 4 million bushels took place in 1980, 1981, and 1982, imports surged to approximately 30 million bushels in 1983. From 1983 forward, annual oats imports have remained about 30 to 40 million bushels range.

Because of the tight oat market, the Department has taken several steps to give producers the opportunity to increase oats production, whether in or out of the feed grain program.

Limited cross-compliance restrictions for program participants have been lifted for the 1988 crop of oats, as was done in 1987.

In 1988, we reduced the acreage set-aside requirement to 5 percent of base. This was down from the 20 percent level required for other feed grains. This means that producers who want Government support for oats may plant more than they have previously. We offered no paid diversion for oats, while a 10 percent paid diversion was offered for other feed grains.

Preliminary enrollment indicates a 30 percent participation for the 1988 program for oats; this is down from 45 percent in 1987. The acreage set-aside as a result of our program constitutes only 93,000 acres, the lowest in several years.

Prospective planting reports have indicated a decline in oat plantings from 18 million acres in 1987 to potential plantings of 16 million acres in 1988. While this is a decline in planted acres, it does not mean that there is going to be a similar decline in harvested acres. Oats are seeded on acreage idled by acreage reduction programs, and they may account for as much as 4 to 5 million acres planted. These are acres which are planted by farmers with no intention of being harvested. In 1988, with the price of oats high and idled acreage declining, harvested acreage could increase.

Based on trend yields, the 1988 oats crop is forecast to be 450 million bushels, the same geographical area in which barley is grown. However, as with barley, much of the oats crop is harvested from areas experiencing adverse weather conditions. Given current weather conditions, that trend yield obviously is no longer applicable. Dry conditions may cause an increase in abandoned acreage, and obviously will reduce yields to a certain extent.

With normal yields, demand and stocks would both increase moderately. Carryover stocks on June 1, 1989, were forecast to increase 16 percent to 140 million bushels, although supplies are not anticipated to increase enough to significantly reduce reliance on imports to meet our domestic needs.

Senator CONRAD. Do we have any estimate on what the yield is likely to be, given current conditions?

Mr. BAILEY. I would certainly defer to perhaps some of your later witnesses in the private industry who may have done some work in regard to that. The Department has not made any projections yet on the full impact of current weather conditions on the oat crop.

Senator CONRAD. And that, too, will come in August?

Mr. BAILEY. Yes, sir.

Senator CONRAD. We asked yesterday at the Drought Task Force meeting that there be an earlier look at crop conditions rather

than waiting until August because of the seriousness of what we confront and because of the implications for policy. So I would hope that that is being pursued, and that you will carry the message back that we have very strong interest in not only the items that were mentioned yesterday, but that the condition of all of these commodities be examined.

Mr. BAILEY. Yes, sir. The next report is in August, but given current conditions, I think it would serve everybody well if we could have a more expedient look at what is happening.

Senator CONRAD. Yes.

Mr. BAILEY. I talked earlier about the Department's attempts to moderate programs in order to get increased production of oats. We have also—and I am looking here for a brochure that we sent out to a number of our county offices, specifically asking that oat producers take a look, or all feed grain producers take a look at what we are doing for the oat program. I cannot find it right at the moment, but we have actually solicited farmers to take a look and consider planting oats this year.

Senator CONRAD. Let me ask you this: Do you have or does the Department have further recommendations on what can be done to encourage oat production? This is an irony, to say the least, that at the time that we are putting substantial acreage in the Conservation Reserve Program, at the time that we have a very substantial Acreage Reduction Program, that we are importing oats. Something does not compute. And you know the difficulty we have between our barley and oats in terms of the attractiveness to producers.

Do you have any recommendations for us, new recommendations on what we ought to be doing to further attract growers? Should we be separating, for example, feed oats from food oats? Ought we be making that distinction in the program?

Mr. BAILEY. At one time, Senator, we had a combined oats-rye base for program purposes. We currently have a combined oats-barley base. Strong consideration should be given to separating these two bases because that would allow a farmer more flexibility to participate in the barley program and then do some additional planting for oats.

Senator CONRAD. I think that is a good suggestion, and I think we should take that to the other members of the committee because that probably makes some sense.

Now, would that require legislative change?

Mr. BAILEY. No, sir.

Senator CONRAD. That could be done under the authority of the Secretary.

Mr. BAILEY. Yes, sir.

Senator CONRAD. This committee perhaps ought to be requesting that the Secretary take that kind of action if it is not currently contemplated that he do that—unless you tell me that you think that it is possible that the Secretary is already committed to this change.

Mr. BAILEY. The Secretary always welcomes input from the Senate Agriculture Committee.

Senator CONRAD. All right. One other question I wanted to ask you on this matter, and that is: Do you have a breakdown on oats

in terms of feed oats, food oats, and which part of that market is the fastest growing?

Mr. BAILEY. In our supply and demand, we do break down, in essence, what is fed the livestock and what is used commercially, for food purposes. There has been more growth in the food area, and there has been——

Senator CONRAD. Has there not been quite strong growth in the food area? My understanding is we are seeing quite strong growth in the food area, and for that reason, perhaps it makes some sense to find a way to get a premium out there to attract growers.

Mr. BAILEY. Just looking at a couple of years here, we have seen a decline in feed by about 15 million bushels, while food seed has increased around 15 million bushels, 10 to 15 million bushels.

Senator CONRAD. That is a pretty dramatic shifting of the demand.

Mr. BAILEY. Yes, sir. On the program side, one of the ironies is trying to operate within the constraints of the program to encourage oat production and try not to encourage as much barley production. And we have done our best to operate within those constraints.

The question is: Do you do something to encourage oat production, or do you try to discourage barley production? An obvious way to discourage barley production would be to reduce support levels and target prices. The alternative, then——

Senator CONRAD. Unfortunately, we are in this situation where we are talking about history.

Mr. BAILEY. Yes, sir.

Senator CONRAD. And it is probably totally irrelevant to what we are going to be faced with tomorrow. I know you are in a difficult position because you are looking historically here and responding to history. But it probably is not going to be the problems that we confront tomorrow. We are probably going to be looking for ways to expand production in order to keep a reasonable reserve. That might be the scenario.

Let me ask you this: If we would make a recommendation that we would have a separate barley and oats base, how do you answer the concern that that just reduces farmers' flexibility even more?

Mr. BAILEY. I do not see how it would reduce their flexibility. We could separate the bases, and then in combination with limited cross-compliance being applied to oats, that would give a farmer a lot more flexibility to both grow barley under program protection and grow all the oats he wants. That is a flexibility we do not now have.

Senator CONRAD. You are saying you would tie the two so that they had even more flexibility.

Mr. BAILEY. Yes, sir.

Senator CONRAD. In other words, you would handle the flexibility problem by dealing with the cross-compliance issues.

Mr. BAILEY. That is the best way to deal with it. What we need is more flexibility for the farmer to do what the market is telling him, and that is what we try to assure in our programs.

Senator CONRAD. All right. I very much appreciate your being here today to provide testimony from the Department. I am hopeful that you will remain with us because we have two more panels;

and it may well be that questions arise which you would be in a position to answer. I do not know what your schedule is, but if it is possible for you to stay——

Mr. BAILEY. We will have somebody, either myself or Dave here, to respond to any issues which come up, Senator.

Senator CONRAD. Excellent. Thank you very much. I appreciate your testimony.

Mr. BAILEY. Thank you.

[The prepared statement and attached flyer of Mr. Bailey follows:]

Statement of William Bailey
Deputy Administrator, Program Planning and Development
Agricultural Stabilization and Conservation Service
U.S. Department of Agriculture
before the
Committee on Agriculture, Nutrition, and Forestry
Subcommittee on Agricultural Production
and Stabilization of Prices
U.S. Senate
June 23, 1988

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you at this hearing to discuss the current situation and prospects for barley and oats markets.

Barley Market Situation

Barley is a small grain for which the primary use is as a livestock feed. As a livestock feed, and in certain other uses such as ethanol production, barley competes with corn. Malt production is another important market for barley. Recent barley crops have been harvested from 10 to 12 million acres, versus 60 to 70 million for corn, and yield per acre has been less than half that for corn. Thus, barley supplies and markets are dwarfted by those for corn. However, in a relative sense the surplus for barley has been as important as the surplus in corn and wheat.

For three straight years, 1984, 1985, and 1986, the barley crop was record large or near record. Largely as a result of this, U.S. carryover stocks have been record levels. Stocks of barley on June 1, 1987, were 336 million bushels, 3 percent larger than the previous record a year earlier. This represented 55 percent of annual use.

In the face of these record large supplies, the U.S. market has faced sluggish foreign demand. U.S. barley exports, after vacillating between roughly 50 million and 100 million bushels per year in the early 1980's, plummeted to a dismal 22 million bushels in the 1985/86 marketing year.

In 1986/87, provisions of the Food Security Act of 1985 (FSA) took effect. Lower levels of price support, access to stocks through commodity certificates, and the Export Enhancement Program (EEP) have again made U.S. barley competitive in the world market. In 1986/87, the first year under the FSA, exports rebounded to 137 million bushels, a six-fold increase from 1985/86. In 1987/88, exports remained strong 130 million bushels. The EEP has accounted for over 90 percent of total barley exports in the last two years.

Increased exports to Saudi Arabia account for most of the increase in US barley exports in 1986/87. While Saudi Arabia remained our primary market in 1987/88, exports to other Mideastern and North African countries have replaced some of the Saudi Arabian market.

With the combined effects of acreage reduction programs, competitive price supports, and demand enhancement program, June 1, 1988 stocks are estimated down 11 percent from a year earlier.

A similar decline in stocks is projected for June 1, 1989, even before the effects of current weather conditions are taken

into account. Stocks are projected to be about 51 percent of use while lower than the previous two years, this is still high relative to the long term average of near 40 percent stock to use relation.

Barley producers participating in the 1988 feed grain program are required to reduce plantings on their bases by 20 percent to earn program benefits. Preliminary 1988 enrollment shows participation at 78 percent, down from 84 percent in 1987. Based on trend yield and the prospective plantings report, the 1988 crop is forecast at 500 million bushels, down 5 percent from 1987, and nearly 20 percent below the record 1986 crop. However, current weather conditions will likely have an impact on the 1988 crop although it is too early to assess the extent of the crop reduction at this time.

We expect demand to decline moderately in 1988/89 as the surplus shrinks. Exports will be directly affected by the level of EEP activity.

Oat Market Situation

The situation for oats in the U.S. is very different than that for other major crops, as oats have remained in short supply in the past several years despite record yields and high prices. Oats are the only major U.S. grain market which must rely on imports to provide an adequate supply.

Like barley, oats are a small grain for which the primary demand is a livestock feed. Thus, oats compete with other major grains, primarily corn, sorghum and barley in feed rations. Today, horses and dairy cattle are the main consuming livestock groups for oats. Additional demand for oats is production of foods for human consumption, such as oatmeal, granola foods, and other breakfast cereals.

U.S. production of oats has experienced a long term decline for several reasons. Oats have generally been less profitable than other cash crops such as soybeans, corn, wheat and barley. Also, farms have become more specialized as cash grain or livestock. In the past, oats were a popular source of feed and bedding for horses, mules and other livestock. Oats today continue to be planted for purposes other than for cash grain. These purposes include straw, pasture, forage, conservation, and as a companion crop with the establishment of a legume such as alfalfa.

The entire U.S. oats crop has been harvested on 7 to 10 million acres annually since 1980. The largest crop in the 1980's was 593 million bushels harvested in 1982, and the smallest crop was 374 million bushels harvested last year.

Carryover stocks of oats have been tightening because of the declining production. Stocks were 133 million bushels on June 1, 1987. This was down 28 percent from a year earlier and represents 28 percent of annual use. Stocks are estimated to have declined another 9 percent on June 1, 1988.

Imports of oats have again become important to the market in recent years. Although imports were negligible in the 1960's and 1970's, they were quite substantial in several years during the 1950's.

After small annual imports of 1 to 4 million bushels in 1980, 1981, and 1982, imports surged to 30 million bushels in 1983. Since that time, annual oats imports have remained about 30 to 40 million bushels.

Because of the tight oat market, the Department has taken several steps to give producers' the opportunity to increase oats production, whether in or out of the feed grain program.

Limited cross-compliance restrictions for program participants have been lifted for the 1988 crop of oats, as was done in 1987. This means that producers willing to give up deficiency payments, loans, and other Government support for oats may grow all the oats they want while receiving Government support for corn, wheat and other crops they normally grow.

Further, the acreage reduction percentage for the 1988 crops of oats was reduced to 5 percent, down from the 20 percent level required for other feed grains. This means that producers who want Government support for oats may plant more than previously. No paid land diversion was offered for oats, while a 10 percent diversion was offered for other feed grains.

Preliminary enrollment in the 1988 program for oats indicates a 30 percent participation, down from 45 percent in 1987. The acreage reduction required on participating farms is only 93 thousand acres, the lowest in several years.

Prospective plantings indicated a decline in oat plantings from 18.1 million acres in 1987 to 16.3 million in 1988. However, this does not necessarily imply a decline in harvested acreage. The practice of seeding oats on acreage idled by annual acreage reduction programs may account for as much as 4 or 5 million acres planted. These acres were planted by farmers with no intention of being harvested. In 1988, with the price of oats high and idled acreage declining, harvested acreage could increas

Based on trend yields, the 1988 oats crop is forecast to be 450 million bushels. However, as with barley, much of the oats crop is harvested from areas experiencing adverse weather conditions. Dry conditions may cause an increase in abandoned acreage, and may reduce yield significantly.

With normal yields, demand and stocks would both increase moderately. Carryover stocks on June 1, 1989, were forecast to increase 16 percent to 140 million bushels, although supplies are not anticipated to increase enough to significantly reduce reliance on imports to supply our domestic needs.

1989 Feed Grain Program

The 1989 Feed Grain Programs is currently being evaluated. The acreage reduction will be between 12-1/2 and 20 percent since 1989/90 beginning stocks of corn are forecast above 2 billion bushels. A 10-percent paid land diversion could be offered for barley, sorghum and corn. The acreage reduction for oats will likely not exceed 5 percent. The Department will continue to monitor effects of current weather, and the final 1989 program will reflect altered 1988 production.

Mr. Chairman, the Department is pleased with the results that have been achieved in the barley sector in the last two years. To continue these positive steps will require a commitment to market-oriented farm policy.

The Department is not satisfied with the oat situation. We would prefer to supply domestic needs with domestically produced oats, rather than rely on imported supplies. We will continue to consider policies that give producers the opportunity to produce more oats, whether in the feed grains program or out of it.

That concludes my testimony, and I would be pleased to respond to any questions you or other Members of the Subcommittee might have.

Flyer attached:

Reasons you should

Consider Oats for '88

Oat Supplies

Oat supplies are tight.
U.S. imports of oats increased from 3.9 million bushels in 1982 to an estimated 35 million bushels in 1987, a rise of nearly ninefold.
The U.S. has been a net importer of oats since 1982.
Producers will be helping the U.S. oat situation by increasing the supply of oats.

Oat Prices

The February national average price of oats was $1.81 per bu., two cents less than corn.

Oat Program

The **Acreage Reduction Program for oats** for 1988 has been **reduced to 5 percent**, compared with 20 percent for all other feed grains.

The **Crop Acreage Bases for oats and barley are combined** for program purposes, as in 1987. You may plant all oats or all barley, or a combination of both on your permitted acreage within your combined Crop Acreage Base . . . and receive program benefits for the crops planted.

Oats are not subject to limited cross compliance restrictions in 1988. A producer willing to forego program benefits for oats may plant oats without restriction, and still be eligible for benefits for corn, wheat or other program crops. However, because barley and oat Crop Acreage Bases are combined, a producer may not overplant oats while receiving program benefits for barley.

All USDA programs and services are available without regard to race, color, national origin, religion, sex, age, marital status, or handicap.

U.S. Department of Agriculture
Agricultural Stabilization and Conservation Service

Senator CONRAD. Next we will hear from Terry Murphy, an oats producers from Cardwell, Montana; Phillip Sisson, director of commodity analysis for Quaker Oats; and Thomas J. Lee, the vice president and general manager of the procurement division of General Mills, Inc.

Welcome, gentlemen. Good to have you here. I want to just indicate before we begin with your testimony that Senator Melcher regrets very much that he is unable to be with us this morning. He is chairing a hearing in another part of the Capitol complex and finds that he is still not able to get away from that responsibility. So he has asked me to fill in for him here today.

I also want to indicate that Senator Melcher has asked me to announce that the next commodities hearing, subcommittee hearing, is scheduled for July 26, and the subject for that hearing will be corn and sorghum. So with that, we will turn to our next panel.

As I have indicated, feel free to summarize your prepared testimony. Your full written statement will be included in the record, and we will begin with Mr. Murphy. Welcome.

EDITOR'S NOTE.—Due to the legislation action caused by the 1988 drought conditions a hearing on corn and sorghum was not held.

STATEMENT OF TERRY MURPHY, PRESIDENT, MONTANA FARMERS UNION, CARDWELL, MT

Mr. MURPHY. Thank you, Mr. Chairman.

My name is Terry Murphy. I am a grain farmer from Jefferson County, Montana, and also president of Montana Farmers Union and a member of the National Executive Committee.

I am a farmer that always raises some oats. I put the entire feed grain base in oats this year. However, the moisture situation will determine whether that is going to add anything to the oats supply. But we think that the issue, really, with the seeming surplus of barley and shortage of oats over the last few years can best be taken care of by equalizing farm program supports. Oats, ever since we really went to the target price system, has been discouraged by the program in favor of barley. And I come from the Western area where those are the two feed grain crops.

While we find statistically that the ending price, or the average price for the year on both of those commodities for feed purposes comes out about the same, the fact is that the underlying support from the program is weighted highly in favor of barley. And most producers simply look at that when they make their planting decisions and go that route.

Livestock use has increased somewhat since the period of 30 some years ago; also, the human food use of oats is growing. You will find a series of charts attached to the prepared testimony. I will not go through that material. It depicts the relationship between oats, barley, and corn as far as farm program pricing is concerned. I think that clearly the relationship there with your target price and loan rate is the primary factor.

If we want to encourage more oat production, I frankly do not think we need necessarily to separate the bases. I think that price will do that. In fact, if they are equalized, then the market rather

than the farm program will be that which helps the farmer make the decision in a given year.

We find that in the Agricultural Act of 1949 price supports can be adjusted by the Secretary when he determines that such an increased level is necessary to prevent or alleviate a shortage of a commodity. And we think that those things need to be done almost on a year-by-year basis. If we overreact to the 1988 drought and bring massive new acreage into oats, and then get a normal year, we could find ourselves quickly back into an extreme surplus of oats like we were back in the late 1960's, early 1970's. So I feel that taking oats out of the program or separating them from barley is not necessary in order to bring things into balance.

Senator CONRAD. What kind of a change specifically would you recommend in terms of the program?

Mr. MURPHY. Well, let me say in my area I can speak to that from personal knowledge, and I think the same basis would hold true through the Dakotas. I cannot speak to the relationship to corn so well. But in those Western areas, in any given year and under a given set of weather conditions, oats and barley will produce about the same weight of grain per acre. So we have to get to a hundredweight basis, I think, rather than bushels.

I have made some notes. We find that, for instance, under the 1987 feed grain program, the barley diversion payment came out to 3.3 cents a pound; the oat diversion payment was only 2.5 cents a pound. The barley loan rate came out to 3.1 cents a pound; the oat loan rate at 2.9. The maximum allowable deficiency on barley was 3.9; oats 3.6. The projected deficiency in 1987 on barley was 2.3 cents a pound; for oats only 1.7. And the advanced deficiency payments on barley were just under a cent a pound, while on oats it was under 0.7 of a cent a pound.

Now, you know, those seem like small numbers, but the farmers raising sizable amounts of these grains, when you look at the underlying support in the spring when it is time to make the planting decisions, it adds to the bottom line.

Senator CONRAD. It makes a big difference.

Mr. MURPHY. That is right. And I think that is the key factor.

[The prepared statement of Mr. Murphy, with attachments, follow:]

NATIONAL FARMERS UNION

STATEMENT

OF

TERRY MURPHY
PRESIDENT
MONTANA FARMERS UNION

BEFORE THE
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

REGARDING

THE DECLINING DOMESTIC SUPPLIES OF OATS

JUNE 23, 1988

600 Maryland Avenue, S.W. • Suite 202 • Washington, D.C. 20024 • Phone (202) 554-1600

Mr. Chairman, I am Terry Murphy, President of the Montana Farmers Union and a member of the National Farmers Union Executive Committee. I am testifying today for the National Farmers Union.

The issue in front of us today -- the declining domestic supply of oats and barley -- is very important to our members because they are small and mid-size family farmers. These are the producers who raise the majority of oats and barley in the United States today.

I will confine my remarks today to oats. I would like to review the past, the present, and what we believe needs to done in the future to make the United States self-sufficient in the production of oats.

The value of oats can be doubled or tripled by using it as feed for livestock. This use has increased from 25% of the total crop in 1950 to 35-40% in 1986.

In the 1950s, the United States produced about 35 percent of the world supply of oats. Today, the U.S. produces only about 16 percent of the world oat crop.

In the early '50s, the yield was 35 bushels to the acre. This has increased to about 55 bushels per acre.

The U.S. has moved from being a major exporter of oats in the early '50s to importing in excess of 35 million bushels per year.

Oats for food has increased from 2.4% in 1955 to 8% in 1984 and is showing all the signs of growing in the future. The use of oats as feed for milk cows, horses and mules has also grown from 54% of the crop in 1950 to 65% today.

Attached to my testimony is a series of charts showing production, price, farm value, and subsidies that are paid on oats, barley and corn. I have included the charts on corn because we believe the relationship among oats, barley and corn is probably the most telling factor illustrating why the United States is importing oats today.

When the American farmer sits down today and makes his planning decision, he makes it in the total context of what feed grains he can grow on his farm and which ones, in the long term, will be the most financially beneficial to him. We believe when the producer makes these decision, the slant of government programs today indicate to him that, in the long run, the most beneficial feed grain crop is corn. When you review the attached charts, you will see that oat production has decreased over the years at the same time that producers have made greater and greater plantings in the area of corn at the expense of oats.

We are here today talking about the declining domestic supply of oats. There are several ways we can turn this around. It is our feeling this needs to be done very carefully so that we benefit the oat producers and do not entice ether producers to go into oat production just on the short-term lucrative basis. When we are faced with only a 10 percent shortfall, the solution we craft must be chosen carefully, because a small oversupply could have a drastic impact on price.

Mr. Chairman, the policy for many years has been toset the loan rates on grain sorghum, barley, oats and rye according to the feed value relationship to corn.

For practical purposes, this has resulted in the grain sorghum loan rate being set at 95% of the corn rate, oats at 51% and barley at 81%.

This has resulted in a bias against oats production.

The law actually provides some discretion to the Secretary of Agriculture. It says in establishing the relationship that the Secretary shall "take into consideration" the feed value relationship and transportation costs.

Further, Section 402 of the Agricultural Act of 1949, provides that:

> "Notwithstanding any other provision of this Act, price support at a level in excess of the maximum level of price support otherwise prescribed in this Act may be made available for any agricultural commodity if the Secretary determines, after a public hearing of which reasonable notice has been given, that price support at such increased level is necessary in order to prevent or alleviate a shortage in the supply of any agricultural commodity essential to the national welfare or in order to increase or maintain the production of any agricultural commodity in the interest of national security."

The drought affecting the 1988 crop will totally distort normal oat production and marketing patterns. Congress must resist overreacting to future oat production stimulation when the final 1988 yield data becomes available. The 1988 crop should be viewed with the drought in mind or large price depressing stocks could be a future problem. That would cause more hardship on the oat producer.

We believe there are four options that merit serious consideration:

1. Set the target price and loan rate of oats higher in relationship to corn and barley.

   We believe that the bias of the feed grain program in

favor of corn is causing the majority of the problems in oat production today. We believe there needs to be a complete review of target price and loan rate relationships between oats, barley and corn. In our opinion, the oat producer is being penalized, and some modifications in this relationship needs to be made.

2. Set the ARP of oats in relationship to the competing feed grains.

   We believe setting the set-aside for oats at a lower percentage in relationship to barley and corn would be the greatest incentive for oat producers to increase their production. This would be the most beneficial to past supporters of the oat program. This change should be modest and not overdone.

   The Secretary of Agriculture should have authority to vary the ARP requirement for the individual feed grains according to the supply situation rather than simply decreeing a uniform reduction in all feed grains regardless of the particular situation for each.

3. Allow the seeding of oats on other feed grain base without the loss of history.

   This option would definitely increase the production of oats, but we would do it to the detriment of producers of oats in the past. We believe this is not one of the best alternatives for increasing oat production.

4. Harvesting oats for grain that were seeded as a nurse crop on acreage reserve programs.

   This seems totally out of step with the intention of the set-aside, feed grain, and oat programs which are in place. Although this would produce a goodly number of bushels of oats in the short run, we believe this windfall to a producer who happened to be in the right place at the right time is definitely not the way to run a long-term farm program. (If this option was considered an emergency drought program, we would be willing to support it.)

Mr. Chairman, the National Farmers Union is extremely concerned about all of the farm programs, specifically the oat program. We are committed to providing our members and all farmers with the best agricultural programs which can be enacted by Congress. We applaud your efforts for holding this hearing and looking at one of the less glamorous areas of crop production but, to an oat producer, one of the most important. We will continue to work with you and your committee in seeing that the United States becomes domestically self-sufficient in the production of oats and that oat producers receive a fair and

equitable return in relationship to the other crops raised in this nation.

I thank you for the opportunity to come here this morning and make our feelings known on this very important subject. I would also like tc offer the resources of the National Farmers Union's Washington, D.C. staff and state organizations to assist you in developing legislation and policy in this area. I would be pleased to respond to any questions.

Attached is a series of charts showing production, price, farm value, and subsidies that are paid on oats, barley, and corn. The material follows:

Table 1--Supply of U.S. oats by major category

Crop year 1/	Beginning stocks			Imports	Production	Total supply
	Onfarm	Off farm	Total			
	Million bushels					
1950	249.9	30.2	280.1	28.2	1,369.2	1,677.5
1951	323.3	37.9	361.2	55.7	1,277.6	1,694.5
1952	301.1	39.8	340.9	74.6	1,217.4	1,632.8
1953	268.2	39.5	307.7	79.4	1,153.2	1,540.3
1954	250.7	34.1	284.8	24.2	1,409.6	1,718.6
1955	306.1	68.2	374.3	3.7	1,496.0	1,874.0
1956	341.5	79.0	420.5	14.6	1,151.4	1,586.5
1957	240.8	51.3	292.1	24.7	1,289.9	1,606.7
1958	338.1	53.1	391.2	5.4	1,401.4	1,798.0
1959	371.8	73.9	445.7	2.0	1,050.1	1,497.8
1960	275.7	46.0	321.7	1.4	1,153.3	1,476.4
1961	323.8	62.2	386.0	1.2	1,010.3	1,397.5
1962	280.8	52.7	333.5	4.0	1,012.2	1,349.7
1963	277.7	47.5	325.2	4.1	965.5	1,294.8
1964	297.1	66.1	363.2	3.2	852.3	1,218.7
1965	258.8	65.8	324.6	4.1	929.6	1,258.3
1966	297.3	80.5	377.9	3.8	803.3	1,185.0
1967	240.6	76.8	317.4	3.3	793.8	1,114.5
1968	245.2	70.8	316.0	2.1	950.7	1,268.8
1969	322.0	102.4	424.4	2.0	965.9	1,392.3
1970	402.4	145.3	547.7	1.5	915.2	1,464.4
1971	369.2	201.2	570.4	3.1	878.1	1,451.6
1972	384.2	212.3	596.5	3.3	690.6	1,290.4
1973	272.3	191.1	463.4	.2	659.1	1,122.7
1974	189.5	118.0	307.5	.3	600.7	908.5
1975	143.4	80.6	224.0	.7	639.0	863.7
1976	158.5	46.3	204.8	1.4	540.0	746.6
1977	128.7	35.6	164.3	2.2	752.8	919.3
1978	259.5	53.6	313.1	.7	581.7	895.5
1979	229.3	50.7	280.0	.9	526.7	807.6
1980	198.3	38.1	236.4	1.3	458.8	696.5
1981	148.9	28.1	177.0	1.6	509.5	688.1
1982	127.1	24.8	151.9	3.9	592.6	748.4
1983	181.2	38.6	219.8	30.1	477.0	726.9
1984	151.3	29.8	181.1	34.0	473.7	688.8
1985	146.5	33.4	179.9	27.5	520.8	728.2
1986 2/	146.9	36.6	183.5	30.0	384.5	596.8

1/ Reflects June through May crop year.
2/ Preliminary. Based on World Agricultural Supply and Demand Estimates as of Jan. 15, 1987.
Sources: (25, 26).

Editor's Note.--Table 2 is omitted.

Table 3--Production of oats for grain by onfarm and off-farm disposition

Crop year	Production	Used on farms where grown	Sold	
			Quantity	Share of crop
	----- 1,000 bushels -----			Percent
1950-54	1,285,417	962,846	322,571	25.1
1955-59	1,279,543	935,476	342,267	26.7
1960-64	998,722	698,154	300,568	30.1
1965-69	888,646	568,864	319,782	36.0
1970-74	754,211	467,000	287,211	38.1
1975-79	608,076	370,067	230,118	37.8
1980	458,792	297,633	159,906	35.0
1981 1/	509,529	305,717-331,194	178,335-203,812	35.0-40.0
1982 1/	592,630	355,578-385,210	207,421-237,052	35.0-40.0
1983 1/	476,961	286,177-310,025	166,936-190,784	35.0-40.0
1984 1/	473,661	284,197-307,880	165,936-189,464	35.0-40.0
1985 1/	520,800	312,480-338,520	182,280-208,320	35.0-40.0
1986 1/	384,546	230,728-249,955	134,591-153,818	35.0-40.0

1/ Estimates of quantity used on farms discontinued with 1981 crop year.

OATS

CROP YEAR	PRODUCTION (million bushels)	NATIONAL AVERAGE SUPPORT PRICE (per bushel)	AVERAGE PRICE TO FARMERS (per bushel)	FARM VALUE (million dollars)	GOVERNMENT PAYMENTS (million dollars)
1955	1,496.0	$0.61	$0.600	$890.0	$ --
1956	1,151.4	.65	.686	792.1	--
1957	1,289.9	.61	.605	783.1	--
1958	1,401.4	.61	.578	811.0	--
1959	1,050.1	.50	.646	677.2	--
1960	1,153.3	.50	.599	692.7	--
1961	1,010.3	.62	.642	649.6	--
1962	1,012.2	.62	.624	635.6	--
1963	965.5	.65	.622	608.2	--
1964	852.3	.65	.631	540.9	--
1965	929.6	.60	.622	587.4	--
1966	803.3	.60	.666	539.8	--
1967	793.8	.63	.659	528.0	--
1968	950.7	.63	.598	575.8	--
1969	965.9	.63	.584	572.3	--
1970	915.2	.63	.623	582.2	--
1971	878.1	.54	.604	543.7	--
1972	690.6	.54	.724	507.2	--
1973	659.1	.64	1.18	774.7	--
1974	600.7	.54	1.53	912.0	--
1975	639.0	.54	1.45	923.6	--
1976	540.4	.72	1.56	935.2	--
1977	752.8	1.03	1.09	823.4	--
1978	581.7	1.03	1.20	688.6	--
1979 3/	526.7	1.08	1.33	701.0	--
1980	458.8	1.16/1.23	1.72	789.0	--
1981	509.5	1.24/1.31	1.88	959.0	--
1982	592.6	1.31/1.49	1.49	884.0	--
1983	477.0	1.36/1.36	1.62	773.0	5.0 Deficiency 7.6 Diversion
1984	473.7	1.31	1.67	792.0	--
1985	520.8	1.31	1.23	641.0	8.0 Deficiency
1986*	384.5	.99	1.10	425.0	65.0 Deficiency 3.0 Diversion
1987*	482.0	.94	1.10-1.30	580.0	45.0 Deficiency 8.0 Diversion

(For statistics for 1945 through 1954, see Oats Commodity Fact Sheet dated March 1979.)

* Preliminary

ALLOCATION OF CORN AND SORGHUM ENDING CARRYOVER
September 1, 1975-1985*
(Million Bushels)

	CORN				SORGHUM			
CROP YEAR	ENDING STOCKS	CCC INVENTORY	FARMER-OWNED RESERVE	FREE STOCKS	ENDING STOCKS	CCC INVENTORY	FARMER-OWNED RESERVE	FREE STOCKS
1975	633.2	0.2	0	633.0	82.3	0	0	82.3
1976	1,135.6	0.2	0	1,135.4	117.3	0.2	0	117.1
1977	1,435.9	3.5	212.0	1,220.4	216.4	5.0	31.9	179.5
1978	1,709.5	100.5	585.0	1,024.0	207.9	43.7	50.9	113.3
1979	2,034.3	260.1	670.3	1,103.9	177.9	45.6	18.0	114.3
1980	1,392.1	241.8	0	1,150.3	130.3	41.5	0	88.8
1981	2,536.6	280.1	1,276.2	980.3	318.6	41.8	229.2	47.6
1982	3,523.1	1,142.7	1,890.1	490.3	439.1	171.5	313.0	-45.4**
1983	1,006.3	201.5	446.7	358.1	287.4	102.8	179.4	5.2
1984	1,648.2	224.9	383.9	1,039.4	300.2	112.1	128.8	59.3
1985	4,039.5	545.7	564.2	2,929.6	551.0	207.2	51.5	292.3

* Reflects September-August corn-sorghum crop year.
** Negative free stocks imply some reserve rotation and use of new crop.

(For 1965 through 1974 statistics based on October-September marketing year, see Feed Grains Fact Sheet dated May 1985.)

ALLOCATION OF BARLEY AND OATS ENDING CARRYOVER
June 1, 1975-1985
(Million Bushels)

	BARLEY				OATS			
CROP YEAR	ENDING STOCKS	CCC INVENTORY	FARMER-OWNED RESERVE	FREE STOCKS	ENDING STOCKS	CCC INVENTORY	FARMER-OWNED RESERVE	FREE STOCKS
1975	128.4	0	0	128.4	204.8	24.9	0	179.9
1976	126.4	0	0	126.4	164.3	0	0	164.3
1977	173.1	0	23.6	149.5	313.1	0	27.9	285.2
1978	228.0	2.5	40.0	185.5	280.0	2.7	38.7	238.6
1979	192.1	3.2	23.0	165.9	236.4	2.7	33.2	200.5
1980	137.3	3.4	11.5	122.4	177.0	2.3	.1	174.6
1981	147.8	3.3	22.5	122.0	151.9	0.7	0	151.2
1982	216.7	6.0	98.4	112.3	219.8	0.7	5.2	213.9
1983	189.4	11.9	95.3	82.2	181.1	1.5	3.6	176.0
1984	247.4	14.6	96.8	156.0	179.9	1.4	2.7	175.8
1985	324.6	57.4	45.2	222.0	183.2	1.9	1.0	180.3

(For 1965 through 1974 statistics, see Feed Grains Fact Sheet dated May 1985.)

CORN

CROP YEAR	PRODUCTION (million bushels)	SUPPORT LEVEL/ TARGET PRICE (per bushel)	DIRECT PAY-MENTS (per bushel)	LOAN RATE (per bushel)	AVERAGE PRICE TO FARMERS (per bushel)	FARM VALUE (million dollars)	GOVERNMENT PAYMENTS (million dollars)
1960	3,906.9			$1.06	1.00	$ 3,928.8	$
1961	3,597.8			1.20	1.10	3,939.0	645.4 F.G. Prog
1962	3,606.3			1.20	1.12	4,025.3	684.0 F.G. Prog
1963	4,019.2	1.25c	.18d	1.07e	1.11 (1.19)1/	4,454.0	679.8 F.G. Prog
1964	3,484.3	1.25c	.15d	1.10e	1.17 (1.23)1/	4,064.2	926.2 F.G. Prog
1965	4,102.9	1.25c	.20d	1.05e	1.16 (1.24)1/	4,754.2	1,094.1 F.G. Prog
1966	4,167.6	1.30c	.30d	1.00e	1.24 (1.35)1/	5,171.0	1,028.0 F.G. Prog
1967	4,860.4	1.35c	.30d	1.05e	1.03 (1.13)1/	5,044.2	730.6 F.G. Prog
1968	4,449.5	1.35c	.30d	1.05e	1.08 (1.20)1/	4,825.6	1,165.8 F.G. Prog
1969	4,687.1	1.35c	.30d	1.05e	1.16 (1.28)1/	5,416.0	1,365.3 F.G. Prog
1970	4,152.2	1.35c	.30d	1.05e	1.33 (1.47)1/	5,514.7	1,228.1 F.G. Prog
1971	5,646.3	1.35g	.32i	1.05e	1.08 (1.24)1/	6,101.1	893.1 F.G. Prog
1972	5,579.8	1.41h	.40j	1.05e	1.57 (1.83)1/	8,743.0	1,468.9 F.G. Prog
1973	5,670.7	1.64k	.32&.16j	1.05e	2.55 (2.71)1/	14,462.7	909.7 F.G. Prog
1974	4,701.4	1.38m	---	1.10e	3.02	14,231.6	244.2 Disaster
1975	5,840.8	1.38m	---	1.10e	2.54	14,817.8	89.9 Disaster
1976	6,289.2	1.57m	---	1.50e	2.15	13,524.1	181.0 Disaster
1977	6,505.0	2.00m	---	2.00e	2.02	13,107.4	281.1 Disaster
1978	7,267.9	2.10n	---	2.00e	2.25	16,280.7	88.3 Deficiency
							558.0 Diversion &
1979 3/	7,928.1	2.20n	---	2.10e	2.48		36.6 Disaster
						19,661.0	110.0 Diversion &
1980	6,639.4	2.35/2.05p	--	2.25/2.40q	3.12		16.0 Disaster
1981	8,118.7	2.40	---	2.40/2.55q	2.47	20,714.0	279.6 Disaster
1982	8,235.1	2.70	.15	2.55/2.90q	2.55	20,054.0	92.3 Disaster
						20,999.0	290.8 Deficiency &
1983	4,174.7	2.96	---	2.65/2.65	3.21		1.5 Disaster
1984	7,674.0	3.03	---	2.55	2.63	19,176.0	904.4 Diversion
1985	8,876.7	3.03	---	2.55	2.23	20,183.0	1,654.0 Deficiency
1986*	8,252.8	3.03	---	1.92	1.45-1.65	19,796.0	2,484.0 Deficiency
						12,800.0	6,000.0 Deficiency
1987*	7,200.0	3.03	---	1.82	1.60-1.90		130.0 Diversion
						12,600.0	6,250.0 Deficiency
							1,435.0 Diversion

(For statistics for 1933 through 1959, see Feed Grains Fact Sheet dated January 1979.

* Preliminary

A copy of an analysis of various drought assistance proposals follows:

NATIONAL FARMERS UNION

June 22, 1988

To: Members of the Drought Task Force

Please find attached a copy of an analysis of various drought assistance proposals. The analysis represents the National Farmers Union's thoughts on these proposals. The proposals that are highlighted in bold print represent the recommendations of National Farmers Union. I hope that you take these thoughts into consideration as you contemplate relief for those who will suffer as this drought continues.

The entire Task Force is to be commended for the prompt action that is being taken to address the serious condition that is developing as a result of the drought. We greatly appreciate the time and effort which is being expended on behalf of farmers and ranchers.

Sincerely,

Leland Swenson

Leland Swenson
President

Attachment

600 Maryland Avenue S.W. • Suite 202 • Washington D.C. 20024 • Phone (202) 554-1600

NATIONAL FARMERS UNION

June 22, 1988

OPTIONS FOR DROUGHT ASSISTANCE

1. 0/92 Program

The reopening of the program would mean that farmers enrolled in the farm program would be eligible to sign up for 0/92 for acreage not planted due to drought counties. This would be of little help since 88 percent of wheat has been planted.

In turn, this would mean guaranteed levels of deficiency payments for farmers. This move could mean $1.53 per bushel for wheat. In addition, farmers who have started planted can still apply for 0/92 assistance for their unplanted acreage. Applications are processed through county and state ASCS offices and approved by DASCO.

The guaranteed deficiency payment of $1.53 on wheat under the 0-92 program is guaranteed only on prevented planting. Of the 1,046 counties that have been approved for haying and grazing on set-aside, only 22 counties have been approved for prevented planting. The Secretary cannot institute guaranteed deficiency payments in drought-only counties without additional legislation. The 0-92 program has tremendous potential with additional legislation.

2. Emergency Feed Assistance Program (EFAP)

Under EFAP, USDA makes CCC-owned grains (corn, grain sorghum, barley, oats and wheat) available to livestock producers for their herds at a price equal to 75 percent of the county loan rate. The quantity of CCC-owned grain a producer can purchase is calculated on the basis of the producer's total feed loss, total feed on hand, and total amount of foundation livestock herd (or poultry) to be fed. Foundation herds are defined as the producer's primary breeding stock and offspring. As directed under the Food Security Act of 1985, the CCC must also bear any transportation and handling costs incurred while making feed available in disaster counties. When emergency drought conditions existed in North Dakota, South Dakota, Montana and Idaho in 1985, EFAP provided about 4.8 million bushels of grain to about 3,400 producers in these four states. The county ASCS committee must file the feed loss report. The report must be approved by the State ASCS Committee and Secretary Lyng. Although counties have started to apply, no North Dakota counties have been approved for EFAP assistance.

This program provides good feed at a reasonable price and makes it possible to maintain a foundation herd. The other advantage of this program is that transportation costs are not borne by the producer.

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The disadvantages are that county approval is very slow in coming and only foundation herds qualify. The dairy producer has a very serious problem under this program. The calculation for maintenance of the animal is much too low for a dairy cow, and there is no help at all in this program for a yearling operator.

We recommend legislation be approved that allows farmers with grains under loan to purchase that grain at 75 percent of the loan rate, if it is to be used as livestock feed to maintain their own herds.

3. Emergency Feed Program (EFP)

Under EFP, the USDA reimburses eligible livestock producers for up to 50 percent of the costs of feed that they purchase from commercial sources. Unlike EFAP, where producers are limited to CCC-owned inventory grains, EFP allows the producer to purchase any available feed that best suits the livestock operation, including mixed feeds, liquid supplements and hay.

Also, EFP provides assistance to producers for all of their stock, not just the foundation livestock. The county ASCS committee must file the feed loss report. The report must be approved by the Deputy Administrator of State and County Operations (DASCO).

This program provides feed for all the livestock a producer has on hand, not just the foundation herd. The producer can buy any feed that is available, and the government pays 50 percent of the feed cost.

This program also has the disadvantage of being very slow in designating counties eligible for this program. In drought areas, feed costs are usually higher, so government help is not as it might appear. Transportation costs under this program become very significant.

4. Set-Aside Acreage, Conservation Reserve Program (CRP) and Waterbank

One thousand and forty-six (1,046) counties have been granted approval for haying and grazing of both Acreage Conservation Reserve (ACR) and Conserving Use (CU) acreage. ACR is a reserve program that all farmers participating in the farm program must comply with, retiring 27-1/2 percent of their acreage. CU is a voluntary diversion option for farmers.

This is a positive step, but there are other options which USDA needs to move on, especially because farmers are already being forced to sell herds at a time when beef prices are high and industry price projections look good. Opening of Conservation Reserve Program (CRP) and Waterbank acreage would provide established forage for livestock while at the same time alleviating potential soil erosion on drought-affected pasture.

This program is one that is probably the easiest to get approval on. It is a good short-term solution and will help both crop and livestock producers.

We recommend that haying and grazing be allowed on Conservation Reserve Program (CRP) and Waterbank acreage.

Under this program, however, most cropland would not be watered for livestock. There is a problem of harvesting by neighbors and getting approval by ASCS.

5. Dairy Price Support Increase

We believe a 10 percent increase in dairy price supports is called for due to the additional feed costs associated with the drought. This increase would assure an adequate level of fluid milk supplies to all consumers.

6. Extension of CCC Loans

We request that USDA allow producers to retain their farmer-held grain reserves. This would allow farmers to receive price improvement that is occurring as a result of the dry conditions. It would also provide a vital feed supply for cattle. This program has the greatest potential for farmers, both through the increase of the commodity price and the availability of grain in the drought area to be used as cattle feed.

7. Deficiency>Payment Guarantees

One of our goals is to get income to farmers if there is a crop failure. Crop insurance helps, but only about 40 percent of the farmers have crop insurance, with the high option payout at about $2.50 per bushel. (Not everyone has the high option coverage.) At best, crop insurance will help to cover the expense of putting in a failed crop. Another way to achieve the income goal is to preserve the deficiency payments by making a commitment to pay deficiency payments at the levels projected by USDA at the time of the 1988 program announcement (or at 92 percent of that level) to all participants in the farm program who experience crop failure. This would make deficiency payments available to those who have no production and cannot gain through improved market prices. The expenditures for such payments have already been included in the budget.

The advantage of this option is that, with the prices going up, it would preclude repaying overpayment of advance deficiency payments. This option would put cash in the hands of farmers that would not have to be repaid. It would provide needed collateral hard-pressed farmers could use to satisfy lenders' demands. The surgical use of guaranteed deficiency payments would be a very easy way for the Department of Agriculture to disburse income to agricultural producers. The drawback of this option is that it would be of no help to soybean producers. Irrigators and producers who were in spot of good production would benefit the most. This

program would not help most cattlemen or dairymen and would considerably increase the ASCS personnel time involved in the farm program.

8. Disaster Low Yield Program

Under the 1985 Food Security Act, the Secretary is authorized to implement this program during a disaster. The authorization of these disaster payments may enable farmers to receive a higher deficiency payment. Disaster payments may be awarded when four conditions are met: producers have suffered substantial losses of program crops; these losses have created an economic emergency; Federal assistance (including FCI indemnity payments) are inadequate; and additional assistance is needed to alleviate the economic emergency. Congress may need to appropriate funds for this.

The disaster low yield program probably has one of the greatest advantages over all other available programs. It would allow the Secretary to base the deficiency on actual loss. The cost of the disaster payment would be covered with off-budget funds from USDA. This program could also be tailored to meet the needs of soybean and cotton farmers, as well as grain farmers, and probably could help more producers in more counties than any other program.

This program still would not be a big help to cattlemen unless additional legislation was passed. Implementation of this program would put a tremendous workload on ASCS.

9. Herd Preservation Feed Grain Donation Program

Under this program, the USDA donates CCC-owned feed grains to livestock producers whose resources have been so damaged by natural disaster that they are incapable of purchasing feed at market prices. This program was last used in 1985 to assist flood victims in West Virginia. The President must declare an area a disaster, at which time Agriculture Secretary may authorize the implementation of this program.

This is probably the best program for livestock producers.

The disadvantage is that it is difficult to get assistance in time to preserve a herd in a drought. It is more structured to deal with problems associated with a flood.

10. Moratorium

The Secretary should use authority available to him under 7 U.S.C. 1981a to declare a loan moratorium and defer principal and interest payments when the continuation of payments would unduly impair the borrower's standard of living. This action would be very beneficial to drought-affected FmHA borrowers.

11. Emergency Hay Assistance

The USDA has an emergency hay assistance program through its Office of Transportation (OT) for getting feed to drought-affected areas. Basically, it works to coordinate transportation of donated hay through the rail service to these areas. USDA should be made aware of the severity of the drought at home and be prepared for quick enactment of this program if and/or when needed.

In addition, the Federal Emergency Management Agency (FEMA) is authorized to provide for the transportation of feed during a disaster. However, this program has never before been implemented for any disaster. A Governor must declare a state a disaster, followed by a Presidential declaration of disaster.

This is a good program and needs to be started as soon as possible. We recommend it be expanded to include the coordination of all volunteer drought assistance and become the clearinghouse for all groups involved in drought relief.

12. Grazing on FmHA Inventoried Properties

On June 9, the USDA announced that it would begin selling hay from farms held in inventory by the FmHA to help meet the needs of livestock producers in those counties where the release of set-aside acres has been authorized.

In addition to selling hay from this land, the FmHA Administrator can open inventoried property for grazing. Apparently, there is nothing to prohibit this, but this opening has not been implemented, partly because this property is in pretty bad shape, unfenced and may lack water. However, there may be cases where this is feasible.

At present, there is a moratorium on the sale or lease of these lands until new Agricultural Credit Act rules are implemented. But this does not preclude the use of these lands for grazing in an emergency.

This program could be of limited help in some areas. Water and fence problems may cost more in time and money than the grazing is worth.

The overriding public relations problems involved with FmHA and inventoried properties may exceed the return that FmHA will receive from grazing these properties.

13. FmHA Emergency Loans

The general rule for FmHA low-interest emergency loan eligibility is that a county must have 30-percent crop damage and that the individual applicant must also have sustained a 30-percent loss in the enterprise (crop, cattle, etc.). The applicant must have a family-size farm and a demonstrated ability to repay debts. Emergency loans are not available to farmers who could have purchased crop insurance but chose not to do so. Terms of the loan depend on the type of loss. For production

losses, terms up to 7 years are available (beyond 7 years must be secured by equity). Terms for facility or land loss are 30-40 years (with security). In both types of loans, the interest rate is 4-1/2 percent, with a ceiling of $500,000 direct loan per disaster. Interest rates for regular FmHA loans are 9 percent for operating loans, 9-1/2 percent for ownership and facility loans, and 3 percent below the regular going rate for limited resource loans. Terms and ceilings are somewhat less favorable than emergency loans. The farmer must apply through county FmHA committees. The application must be approved by the State FmHA Director and Administrator Clark.

FmHA emergency loans are very attractive with a 4-1/2 percent interest rate, and a 7-to-40-year repayment schedule is more than adequate.

The disadvantage is the lengthy amount of time it takes to get approval, and farmers already have debt. Seventy-five percent of FmHA's default are in emergency and disaster loans. More debt in this situation usually is not the best solution.

* * *

Senator CONRAD. All right. We now have a vote taking place on the floor, and I think the best thing to do is to declare a short recess. I will go over and vote, return immediately, and we will carry on. So we will go into recess until the return of the Chair.

[Recess.]

Senator CONRAD. This hearing will return to order. I apologize for the delay. I became engaged in conversation with some of my colleagues on the Senate Agriculture Committee on drought relief measures, which, as you can imagine, is occupying most of our time and attention and most of our thoughts. I had an opportunity to talk to several of my colleagues about certain things that are very important to us in terms of the Emergency Feed Assistance Program and Conservation Reserve Program acres that we have run into a roadblock on. I apologize for that delay.

Next, we will hear from Phillip Sisson, the director of commodity analysis of Quaker Oats Company. Welcome.

STATEMENT OF PHILLIP SISSON, DIRECTOR OF COMMODITY ANALYSIS AND ECONOMIC RESEARCH, THE QUAKER OATS COMPANY, CHICAGO, IL

Mr. SISSON. Thank you, Mr. Chairman.

It is a damn shame that the United States, the breadbasket of the world, cannot produce enough oats to meet domestic needs because of Government policies and programs. We think it is time for these programs to change.

Now, we certainly recognize that the drought is creating problems, but the real problems were already evident. If you look back at the history, 1987 oats production in the United States was the smallest since 1876. The oats harvested for grain in both 1986 and 1987 were at record lows. And it does look as though the June 1 stocks of oats that we will be carrying over this year will be the smallest in modern day record.

We believe the reason for that is that oats cannot compete with the returns from Government target prices for wheat, corn and barley. As an example of that, before the drought, we have had milling oats at Minneapolis trading at more than double the price of corn on a hundredweight basis.

We feel under normal circumstances that this should have caused farmer response in the form of added acres planned to be harvested. Of course, the only intentions we have were those that were released by USDA back on March 1. At that time, they were showing a decrease of 9 percent.

Just as important, we believe that the high prices that we have seen for oats relative to corn and the other feed grains has forced oats from many livestock and poultry rations. Oats just cannot compete with corn or barley, even wheat, with their target prices where they are.

We also believe that a very high proportion of U.S. oats production never leaves the farm from where it was produced. Of that that is sold, we think virtually all of that is used by either the food industry or by the horse trade—the horse trade, of course, requiring a specialty type oat.

We do know, at least on the basis of our experience at Quaker and our oat-based products, that the food sector is growing and growing quite rapidly. We think there are a couple of reasons for that, one of them being that consumers are becoming more aware of the nutritional attributes of oats, and there have been a number of medical studies that have been released in recent years that show oats, oat bran and oatmeal both can help reduce cholesterol when part of a low-fat diet. We think those are some of the factors that are behind the added growth in the food sector.

We do know that the very high prices that we have seen for oats have encouraged a record large amount of imports into the United States, and we currently are estimating that this will approach 45 million bushels in the crop-year that just ended on June 1.

Up until 1982, the United States had been an exporter. We had typically moved somewhere between 15 and 25 million bushels a year. We have been very concerned about the trend toward added imports. One, the quality has been of a type that we at Quaker have been unable to use, primarily due to the lower proteins associated with the imported oats; and, in addition, we felt the majority of the heavy deliveries that were made on the May 1988 future options in Chicago when they expired this year were of Argentine origin, and no one seemed to want those oats. As a result, we ended up with one of the widest basis that we have seen historically when prices of cash and futures should have been moving toward even money.

Senator CONRAD. Let me just intercede and ask you: What is the protein level of those oats that are coming in?

Mr. SISSON. It is our understanding on the basis of the tests that we have run, the Argentine material would be typically less than 13 percent. We have seen historically some of the materials coming out of Scandinavia as low as 10 percent. I think a general range would be something on the order of 10 to 13 percent.

Senator CONRAD. And what do you need?

Mr. SISSON. Our standards at the present time—and we may have to reduce those if we cannot find domestic oats—is a minimum of 14 percent. We prefer something higher than that. The general average——

Senator CONRAD. Now, please do not do that. I eat your oatmeal and feed it to my kids.

Mr. SISSON. Good. Great.

Senator CONRAD. We do not want to lower the protein level.

Mr. SISSON. I might also add that U.S. proteins typically average between 15 and 16 percent. That, of course, varies somewhat depending on the type of growing season.

We also believe that the market orientation that was touted for the Food Security Act of 1985 has proved to be anything but that for certain commodities, especially oats, and I guess in many ways you could say the same thing about soybeans.

We really are saying why shouldn't the benefits of high oat prices accrue to U.S. farmers? You know, one of the things that Quaker has done historically, we have been very active in trying to keep oats more competitive with other grains. One of the ways that we have done that is that we have spent millions of dollars funding varietal research at about 15 land-grant universities around the

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country. We think that has helped. We do know that the leading varieties that are in existence here in the United States today that are planted basically came about through Quaker research grants.

In addition, since our efforts back in the early 1970's were to increase protein levels, we believe the fact that U.S. proteins are higher than you find for foreign oats demonstrates that the research funds were well spent.

Quaker wants to see U.S. farmers benefit from high prices from oats, not foreign producers. Now, I would add also that the drought is forcing Quaker to review the sourcing for oats because we do have a major concern over the availability of U.S. oats for this next crop-year. We also think that Quaker may be one of the last food companies to rely completely on domestic production.

We do offer a number of suggestions to increase the availability of high quality U.S. oats. First and immediately, to deal with drought-induced production declines, we recommend allowing oats for harvest on set-aside acres.

Senator CONRAD. Let us repeat that. Let me make sure that message gets out there loud and clear. You are urging that oats be harvested on set-aside acres.

Mr. SISSON. That is right. We recommend allowing oats for harvest on set-aside acres. As was done last week with the CRP in allowing haying in return for reduced rental payments, producers that elect to harvest oats on set-aside could "pay" for that privilege in the form of reduced drought assistance benefits. It may be too late for this option for this year in that some producers may already have elected to graze or to hay their oats planted on set-aside acreage. However, we recommend legislation to require such action in future years when, for whatever reasons, crops such as oats are in critically short supply.

Second, we recommend a number of changes in the 1989 feed grains program, many of which are also applicable to the upcoming 1990 reauthorization of farm programs. Our suggestions are: Establish a zero ARP for oats; establish a separate base for oats; adjust the target price for oats to remove the disincentives built into the program for oats relative to other grains. In view of current supply/demand balances for oats and the high prices relative to corn, it is our contention that oats should no longer be considered a feed grain. For those oats sold from farms, the number one use is for food, closely followed by horse feed. Consideration should also be given to a higher target price for oats destined for the food or the horse trade through a program of premiums over the basis loan for quality oats.

We also believe that we should increase the flexibility for producers to shift from crop to crop in response to market conditions without affecting the crop base for future income protection. We understand such legislation is already being discussed with respect to 1989 soybeans; we strongly recommend that oats be included in any package that increases planting flexibility in the next crop-year or crop-years thereafter.

We definitely think that U.S. commodity programs need to be changed to allow production decisions to be made on the basis of market conditions, not because of Government-mandated support prices. The high prices for oats or any other commodity should

enrich U.S. farmers, not foreign producers. This country's farmers have the proven ability to produce oats. It just makes no sense for commodity programs to force farmers to produce crops in surplus while commodities such as oats are forced to be imported—all at a cost to farmers, consumers and, most of all, to the Nation's taxpayers.

Thank you, Mr. Chairman.

Senator CONRAD. Thank you. I personally think the recommendations that you have made are wise ones, ones that we ought to consider adopting. They are much in line with the thinking that we have had in terms of what the governmental response ought to be. And I hope that our friends at USDA are listening carefully to those sets of recommendations. And I am confident that that word will go back.

[The prepared statement and appendix of Mr. Sisson follow:]

The Quaker Oats Company, P.O. Box 9001, Chicago, Illinois 60604-9001

STATEMENT OF PHILLIP SISSON
DIRECTOR OF COMMODITY ANALYSIS AND ECONOMIC RESEARCH
THE QUAKER OATS COMPANY

before the
Subcommittee on Agricultural Production and
Stabilization of Prices,
Senate Agriculture Committee
June 23, 1988

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to discuss our company's position with regard to the 1989 oats program.

The Quaker Oats Company is a major manufacturer of high quality oats-based products containing only U.S. produced oats. We are by far the largest user of oats for food products in the United States.

We traditionally buy our food grade oats from the major milling oats producing states of Iowa, Minnesota, South Dakota, and North Dakota. We purchase smaller quantities from Nebraska, Illinois, Michigan, Ohio, and Wisconsin as well. Milling quality oats used by the food industry are characterized by a high protein content, in the range of 14 to 16 percent, with test weights of 34-38 pounds per bushel, and have a good appearance in terms of color and high sound counts (low foreign matter, other grains and seeds).

Oats are a multi-purpose crop. The bulk of production remains on the farm where it is used for feed, as a forage crop or for hay. Virtually all of the U.S. oats production that is sold off the farm is used for human food or for the horse trade. Off-farm sales are estimated at 40 percent of the U.S. oats crop, with almost 50 percent of that amount going into food. We expect the amount of oats production used for food to continue to grow over the coming years as consumers realize the nutritional attributes of oats, which have been shown to reduce cholesterol when part of a low fat diet. Quaker Oats is committed to meet this growing demand for oats products.

Despite strong demand for food oats, U.S. oats production has declined dramatically over the past several years. Oats production in the United States in 1987 was the smallest since 1876. We were anticipating further production declines even before the current drought, which will severely cut production. Carryover stocks on June 1, 1988 are estimated at record lows.

Although there are several reasons for the production declines in oats, we believe in recent years the primary factor has been U.S. commodity price support programs. By providing significantly higher incentives to wheat, barley, corn and sorghum producers, farm programs have pulled acreage out of oats into these crops. Lack of planting flexibility under the programs has kept acreage out of oats, despite oats prices at record high levels in relation to corn and other feed grains. Oats prices on a hundredweight basis are more than double the price of corn, however, when Federal dollars in the form of deficiency payments are factored in, oats are not competitive. It is estimated that oats cash prices would have to reach three times the corn price, on a hundredweight basis, to compete with market and Federal program returns to the producer. The higher target for barley and wheat relative to oats act as additional disincentives to oats production.

The value of Federal payments for wheat and feed grains make it mandatory that producers continue to plant these crops, already in surplus, to maintain their bases for deficiency payments on future production. Despite market prices providing very favorable returns to soybeans, limited acres will be shifted to soybeans from wheat or feed grains as producers protect their acreage base. However, soybeans are expected to pull acres from oats in areas where soybeans are a viable crop, creating added pressure on oats.

The much touted "market oriented" 1985 farm act has proved to be anything but that for certain commodities. Despite extremely strong oats prices, the necessity of preserving bases for other crops has prevented the appropriate production response by U.S. oats farmers. This is true for soybeans as well.

But U.S. agriculture does not exist in a vacuum. Although U.S. oats farmers are not increasing production, foreign oats producers have been and will continue to respond to high U.S. prices.

The United States became a net importer of oats in 1982 and oat imports have continued to rise since then. Oats imports accounted for less than 1 percent of production in 1982, rising to about 12 percent in 1987/88. Primary

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suppliers have been the Scandinavian countries, Canada and, for the first time this year, Argentina. Quaker has been both unwilling and unable to use these imported oats because of our commitment to U.S. producers as well as quality considerations--imported oats generally have a lower protein content than domestic oats.

The large-scale imports from Argentina have been of particular concern to Quaker for two reasons. First, they have greatly limited our ability to hedge in the futures markets. The quality of Argentine oats has been poor, both in terms of protein quality and appearance. Historically, imported oats from Scandinavia found a market near the port of entry, especially in the horse trade. The Argentine materials have not met the horse trade's standards and as a result the oats have been forced into interior markets, in fact as far north as Minneapolis. It is common belief that the majority of the heavy deliveries on the expiring Board of Trade May Futures Option were Argentine oats. The result has been the widest basis (cash minus futures) ever for an expiring option. This sharply reduces the viability of the oats futures market as a hedging medium.

Second, we fear that the Argentine crop may be blended with the U.S. crop thus adulterating the U.S. oats supply. Quaker has refused several carloads of oats that have shown evidence of this blending.

These import increases, fueled by continual declines in U.S. oats production, are of critical concern to Quaker Oats. Our interest is in ensuring the availability of high quality U.S. oats. To this end, we have, since the 1940s, spent millions of dollars to fund research on varietal development of oats at 15 land grant universities in the United States in an effort to improve productivity per acre and to increase protein levels in oats. Many of the current varieties grown in the United States were developed as a result of Quaker funding. This includes Ogle, a variety developed at the University of Illinois, which is considered the most productive and widely grown variety today. We also attribute the higher proteins associated with U.S. varieties to Quaker funded research. U.S. food grade oats will generally average 15-16 percent protein compared to 10-13 percent for foreign oats.

Some may accuse Quaker or any food company or commodity purchaser of trying to buy the commodity for the cheapest price possible. That is nothing to be ashamed of -- any prudent businessman, consumer or farmer should be cost-conscious. But, we also clearly recognize that producers must and should receive a fair and reasonable return on their investment. We are willing to pay that return and have done so. For several years, Quaker has purchased

oats on a "to arrive bid" basis with new crop bids available shortly after January 1 of each year. This is beneficial to farmers in their planting decisions because it tells the farmers the market's current appraisal of the value of the crop. It also allows them greater flexibility in pricing oats they may have in storage or plan to produce.

We would like to see the U.S. producer of high quality oats benefit from the high oats prices. But, because of inflexible farm programs that discriminate against oats, acreage intentions in 1988 decreased by 9 percent. The foreign producer, however, has found U.S. prices attractive and has increased shipments to the U.S.

The negative consequences of the 1985 farm act are becoming increasingly evident in the face of the current drought. With respect to oats, we expect production to decline sharply with a very small proportion of the crop meeting milling standards. As a result of the potential for extremely tight supplies, Quaker Oats is forced to investigate the possibility of the purchase of foreign oats. We do this with great reluctance and in the hope we will not have to use these oats in any of our products. This is a hedging maneuver against the drought and forced upon us by years of continued declines in U.S. oats production levels.

We will use the imported oats only as a last resort and will resell them if supplies of U.S. oats become more plentiful. We think this action is significant -- Quaker Oats may be the last food company to rely solely on U.S. oats. Farm programs, exacerbated by the drought, are forcing us to modify that policy. We hope some changes will be made to farm programs to increase U.S. oats production and allow us once again to buy domestic oats exclusively.

We offer a number of suggestions to increase the availability of high quality U.S. oats:

First, and immediately, to deal with drought-induced production declines, we recommend allowing oats for harvest on set-aside acreage. As was done last week with the CRP in allowing haying in return for reduced rental payments, producers that elect to harvest oats on set-aside could "pay" for that privilege in the form of reduced drought assistance benefits. It may be too late for this option for this year in that some producers may already have elected to graze or hay oats planted on set-aside acreage. However, we recommend legislation to require such an action in future years when, for whatever reasons, crops, such as oats, are in critically short supply.

Second, we recommend a number of changes in the 1989 feed grains program, many of which are also applicable to the upcoming 1990 reauthorization of farm programs.

Our suggestions are to:

- Establish a 0 ARP for oats;
- Establish a separate base for oats (split the current barley/oats base);
- Adjust the target price for oats to remove the disincentives built into the program for oats relative to other grains. In view of current supply/demand balances for oats and the high prices relative to corn, it is our contention that oats should no longer be considered a feed grain. For those oats sold from farms, the number one use is for food, closely followed by horse feed. To assure that future production does not continue to erode, we recommend adjustments in oats target prices relative to the other grains. Consideration should also be given to a higher target price for oats destined for the food or horse trade through a program of premiums over the basic loan for quality oats (premiums based on quality considerations);
- Increase the flexibility for producers to shift from crop to crop in response to market conditions without affecting the crop base for future income protection. We understand such legislation is being discussed with respect to 1989 soybeans and strongly recommend that oats be included in any package that increases planting flexibility in the next crop year.

The problem in oats is at crisis proportions, brought on by farm programs that clearly have discriminated against oats and exacerbated by the worst drought since the mid 30's. Significant program changes must be made in 1989 and in future farm legislation to allow the marketplace to determine production levels rather than returns from government dictated programs. Otherwise, U.S. oats users will be forced to significantly increase their reliance on foreign produced oats. This is not a path Quaker Oats would like to follow--it increases our vulnerability to quality problems and does not benefit U.S. farmers.

Thank you, Mr. Chairman.

Appendix follows:

APPENDIX

TABLE 1	-	WHEAT & FEED GRAIN PROGRAMS-1988
TABLE 2	-	CHANGE IN OATS TARGET PRICE REQUIRED TO EQUAL RETURNS FROM OTHER CROPS
GRAPH 1	-	TARGET PRICES FOR GRAINS
GRAPH 2	-	TARGET PRICES AS A % OF TOTAL COST
GRAPH 3	-	OATS-TARGET, LOAN & CASH
GRAPH 4	-	OATS-PRICE RELATIVE TO CORN
GRAPH 5	-	OATS-ACREAGE, UNITED STATES
GRAPH 6	-	OATS PRODUCTION
GRAPH 7	-	OATS-YIELD PER ACRE, UNITED STATES
TABLE 3	-	OATS-SUPPLY/DISAPPEARANCE, UNITED STATES
GRAPH 8	-	OATS-CARRYOVER STOCKS
GRAPH 9	-	OATS-FOREIGN TRADE, UNITED STATES
GRAPH 10	-	OATS-PRODUCTION AND PRICE TRENDS
GRAPH 11	-	OATS-IMPORTS AND PRICE TRENDS
TABLE 4	-	OATS-IMPORTS, UNITED STATES
TABLE 5	-	OATS-AVERAGE GROAT PROTEINS

TABLE 1

WHEAT & FEED GRAIN PROGRAMS - 1988

	TARGET	LOAN	MAXIMUM DEFICIENCY	
			PER BUSHEL	PER ACRE*
WHEAT	$4.23	$2.21	$2.02	$75.83
CORN	$2.93	$1.77	$1.16	$126.32
OATS	$1.55	$0.90	$0.65	$37.00
BARLEY	$2.51	$1.44	$1.07	$55.66
SORGHUM	$2.78	$1.68	$1.10	$68.09
SOYBEANS	$0.00	$4.50	$0.00	$0.00

*Based on 5 year average national yields

- Targets and loans for oats have been historically low relative to corn, sorghum, barley, and especially wheat
- Potential deficiency payments per acre for oats are only 66% of barley, 49% of wheat, and 29% of corn based on 5 year national average yields
- The disparities in potential deficiency payments clearly indicate the disincentives that farm programs provide for oats production in the U.S.

TABLE 2

CHANGE IN OATS TARGET PRICE REQUIRED TO EQUAL RETURNS FROM OTHER CROPS

		1988
		DOLLARS PER BUSHEL
CORN	+	$1.71
BARLEY	+	$0.30
WHEAT	+	$0.32
SOYBEANS	+	$2.44

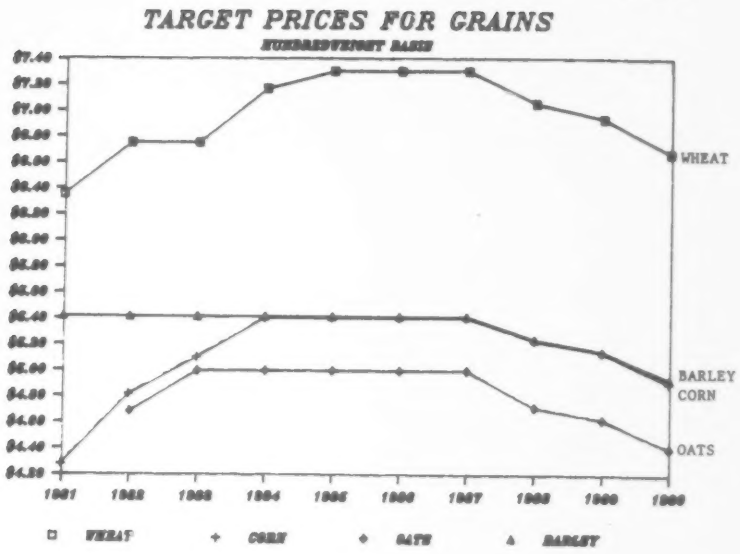
ASSUMPTIONS -

- Upper midwest (Minnesota, N. Dakota, S. Dakota, & Iowa)
- Five year average yields
- Returns over variable costs of production
- Participation in feed grain and wheat programs

CONCLUSIONS -

- For program returns for oats to equate to those for barley and wheat, oats target prices would need to be increased $0.30 and $0.32 per bushel, respectively
- Competitive returns to corn would require a $1.70 increase in oats target prices
- Current market prices for soybeans indicate a $2.44 per bushel increase would be needed to compete

GRAPH 1

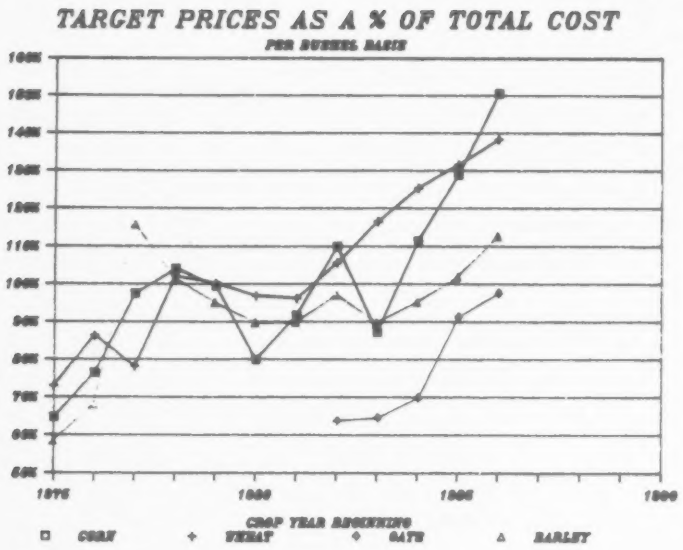


- Constant weight removes the effect of varying bushel weights for the various grains.

- Disparity of oats target relative to corn and barley is readily apparent on a hundredweight basis. The level for the wheat target is 46% higher than for oats.

- The level of target prices relates to the effectiveness of the producer groups involved. There is no producer group for oats at the present time.

GRAPH 2



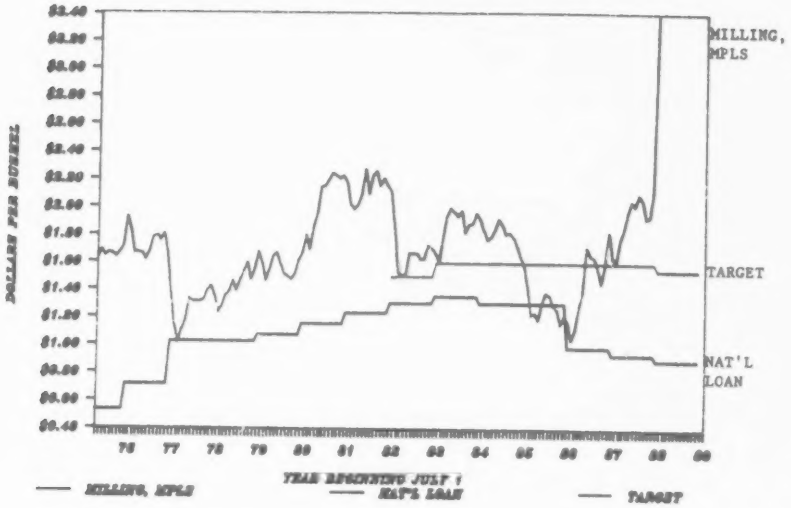
- Target prices per bushel as a percent of total cost of production (including land and labor) per acre have been established at unreasonable levels in relation to barley and especially corn and wheat.

- Production costs were derived from USDA's Economic Indicators of the Farm Sector-Cost of Production.

- Yields were derived from USDA's final Crop Report released in January 1988.

GRAPH 3

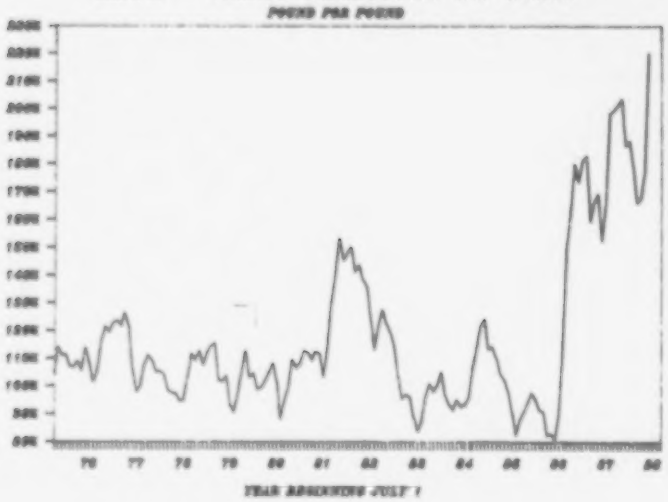
OATS – TARGET, LOAN & CASH



- Cash prices for milling oats, Minneapolis, have seldom fallen below oats loan levels.
- Since oats target prices were established in 1982, milling oats have generally maintained price levels higher than target (except 1985/86 crop year when all grains were depressed).
- Even with high oats prices in the 1987/88 crop year, producers intend to plant 9% fewer oats in 1988 compared to a year earlier, according to the March 1 USDA report.

GRAPH 4

OATS – PRICE RELATIVE TO CORN

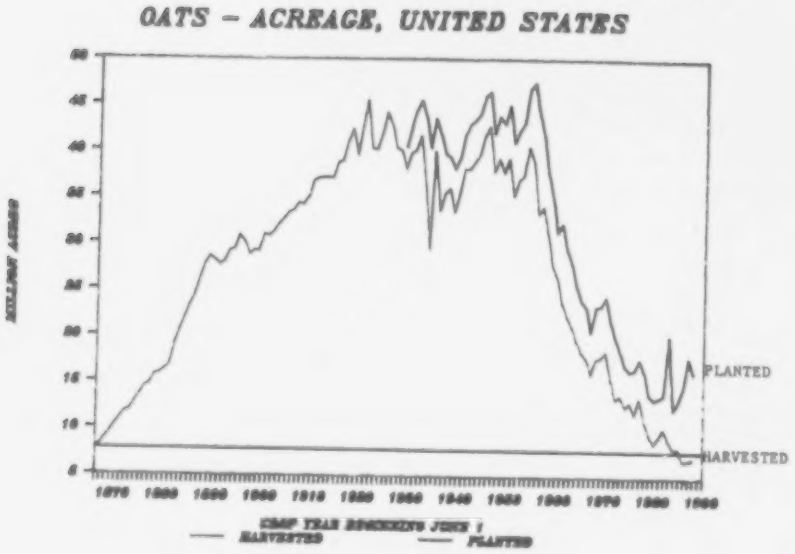


- Oats prices have reached values double that of corn on a comparable weight basis, an unprecedented high level.

- Oats should no longer be considered a feed grain as prices have forced them from virtually all formula feeds.

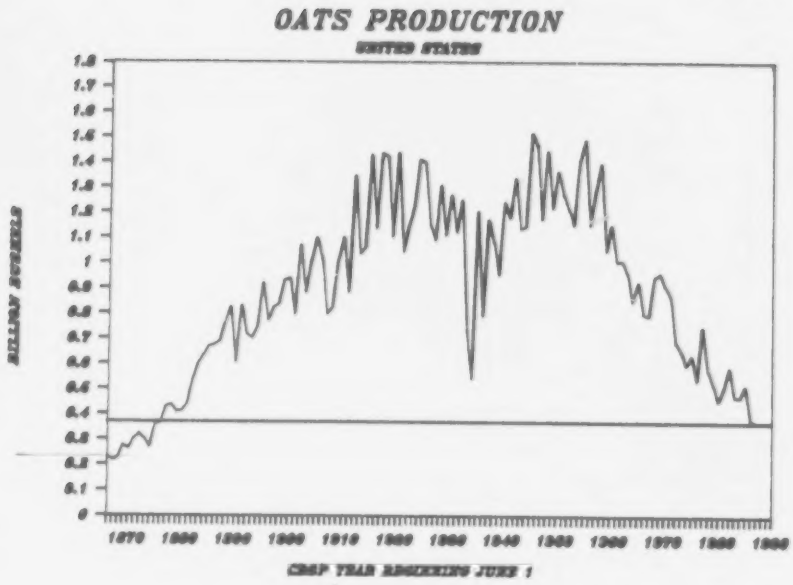
- Prime use of oats is for food and for race horse feed. Some oats are still used as feed on farms where produced. Many producers never sell oats regardless of price.

GRAPH 5



- Record low oats acreage harvested for grain in 1986 and 1987.
- Disparity of planted acreage to acreage harvested for grain in recent years relates to oats planted as cover crops on ARP, PLD, and Conservation Reserve acreage.
- The unprecedented high oats prices in 1987/88 relative to other grains is not encouraging additional oats acreage with acreage intentions on March 1 down 9% from a year ago.

GRAPH 6

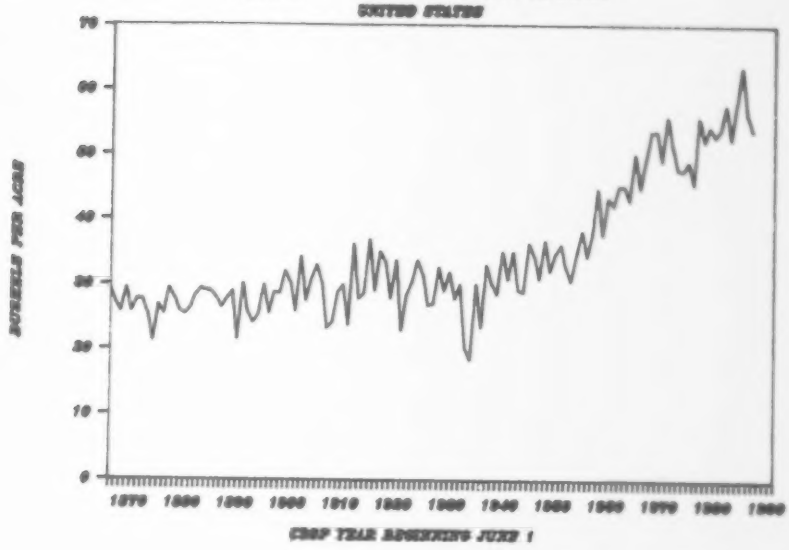


- Oats production in the United States in 1987 was the smallest since 1876.

- Oats production in 1987 was down 75% from the peak in 1945 despite expanding demand for oats as a food grain.

GRAPH 7

OATS – YIELD PER ACRE



- Oats yields have been on the uptrend since the early 1950's. Quaker funding for varietal research was started in the 1940's.

- Quaker funds research at 15 public institutions in the U.S. in an effort to improve productivity per acre and to increase protein levels in oats.

- A number of new varieties have been released as a result of Quaker funding.

  Ogle--A variety developed at the University of Illinois with Quaker funding is now the most productive and most widely grown variety today.

TABLE 3

OATS - SUPPLY/DISAPPEARANCE, UNITED STATES

MAY 4, 1988

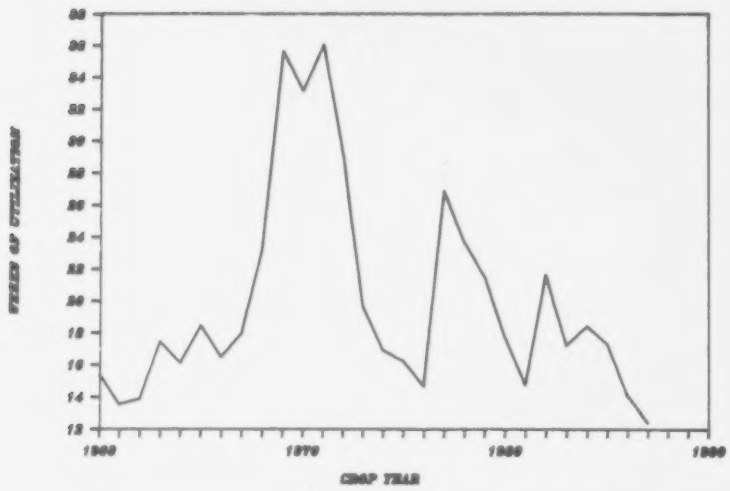
	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
					MILLION BUSHELS				MILLION BUSHELS			
PLANTED ACRES	17.7	16.0	14.0	13.4	13.6	14.0	20.3	12.4	13.3	14.7	18.0	16.3
HARVEST ACRES	13.5	11.1	9.7	8.7	9.4	10.3	9.1	8.2	8.2	6.9	6.9	
YIELD/ACRE	55.8	52.3	54.4	53.0	54.2	57.8	52.6	58.0	63.7	56.3	54.0	
JUN 1 STOCKS	165	310	280	236	177	152	220	181	180	182	129	106
PRODUCTION	753	582	527	459	510	593	477	474	521	386	374	
IMPORTS	2	1	1	1	2	4	30	34	27	36	45	
SUPPLY	920	892	807	696	689	749	727	688	728	605	547	
EXPORTS	12	13	4	13	7	3	2	1	2	1	1	
FOOD	52	53	54	55	56	57	59	60	62	63	70	
FEED	506	512	480	416	439	418	454	414	445	367	330	
SEED	40	35	33	34	35	51	31	33	37	45	41	
DISAPPEARANCE	610	613	572	518	536	529	546	508	545	476	442	
MAY 31 STOCKS	310	280	236	177	152	220	181	180	182	129	106	
FREE					148	210	174	174	173	118		
LOAN					4	4	2	2	5	5		
RESERVE					0	5	4	3	3	4		
CCC					1	1	2	1	2	2		
STOCKS/USE	51%	46%	41%	34%	28%	42%	33%	35%	33%	27%	24%	

PRICES, NO. 2 HEAVY OATS, MINNEAPOLIS

	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
JAS	$1.09	$1.29	$1.54	$1.79	$2.01	$1.64	$1.78	$1.80	$1.30	$1.15	$1.74	
OND	1.28	1.42	1.64	2.09	2.16	1.62	1.97	1.88	1.30	1.59	2.01	
JFM	1.32	1.54	1.50	2.23	2.22	1.64	1.89	1.81	1.31	1.55	2.08	
AMJ	1.40	1.57	1.60	2.21	2.16	1.70	1.92	1.66	1.19	1.69	2.15	
F'YR AVG	$1.27	$1.46	$1.57	$2.08	$2.14	$1.65	$1.89	$1.79	$1.28	$1.50	$2.00	
TARGET						$1.50	$1.60	$1.60	$1.60	$1.60	$1.60	$1.55
LOAN	$1.03	$1.03	$1.08	$1.16	$1.24	$1.31	$1.36	$1.31	$1.31	$0.99	$0.94	$0.90

GRAPH 8

OATS – CARRYOVER STOCKS

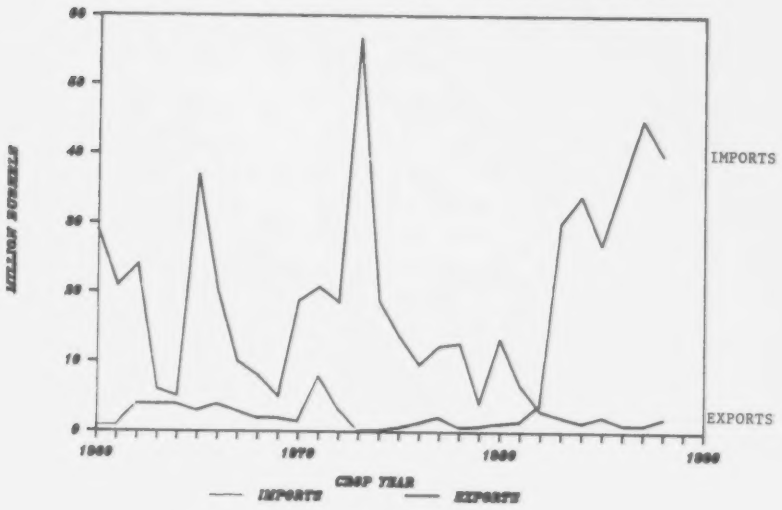


- Oats stocks on June 1, 1988 are estimated to be equal to 12.4 weeks utilization, the smallest in recent history.

- The low stocks place increased emphasis on the need for a quality oats crop in 1988, especially with indications of 9% reduction in acreage.

GRAPH 9

OATS – FOREIGN TRADE, UNITED STATES



- U.S. exports have dropped to insignificant levels compared to 20-30 million bushels annually in the 1960's and 1970's.

- U.S. imports continue to grow and are estimated to reach 45 million bushels in the 1987/88 crop year compared to little or none in the 1960's and 1970's.

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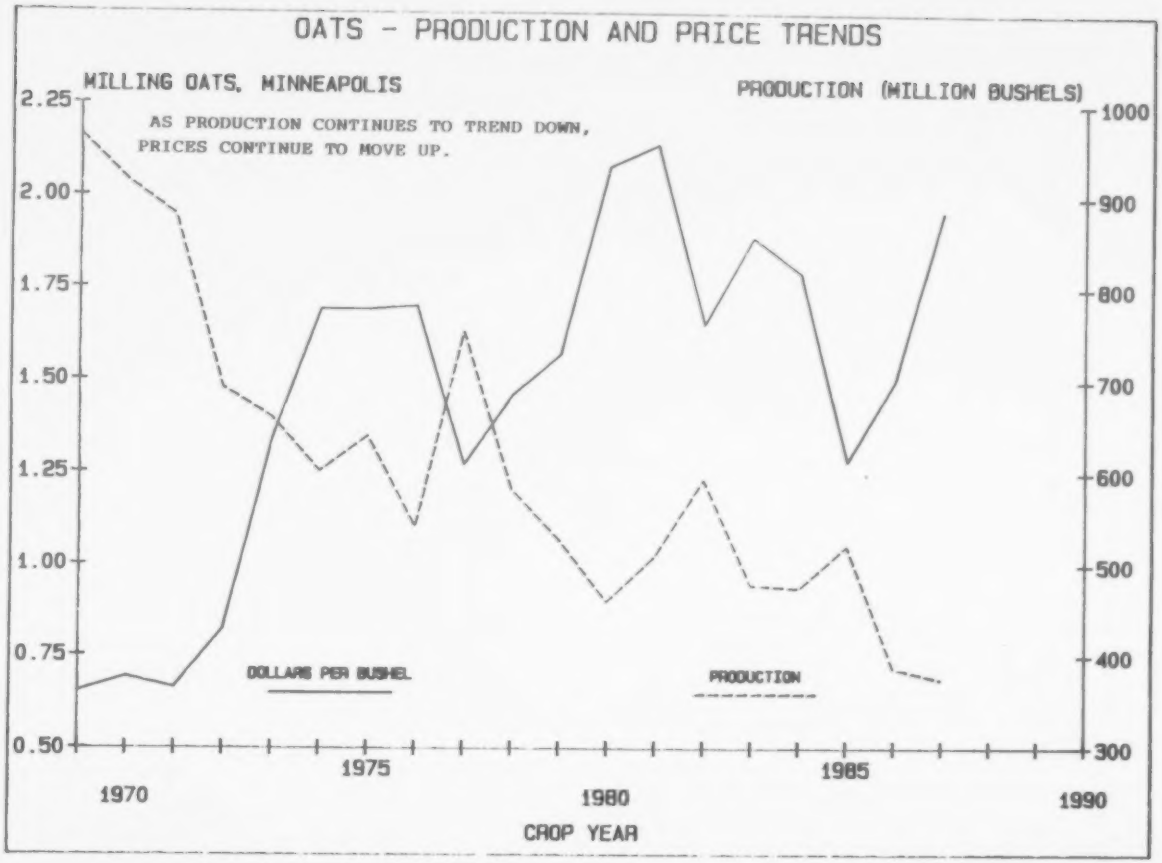
GRAPH 10


OATS - PRODUCTION AND PRICE TRENDS
MILLING OATS, MINNEAPOLIS
PRODUCTION (MILLION BUSHELS)
AS PRODUCTION CONTINUES TO TREND DOWN,
PRICES CONTINUE TO MOVE UP.
2.25
2.00
1.75
1.50
1.25
1.00
0.75
0.50
1000
900
800
700
600
500
400
300
DOLLARS PER BUSHEL
PRODUCTION
1970
1975
1980
1985
1990
CROP YEAR

GRAPH 11

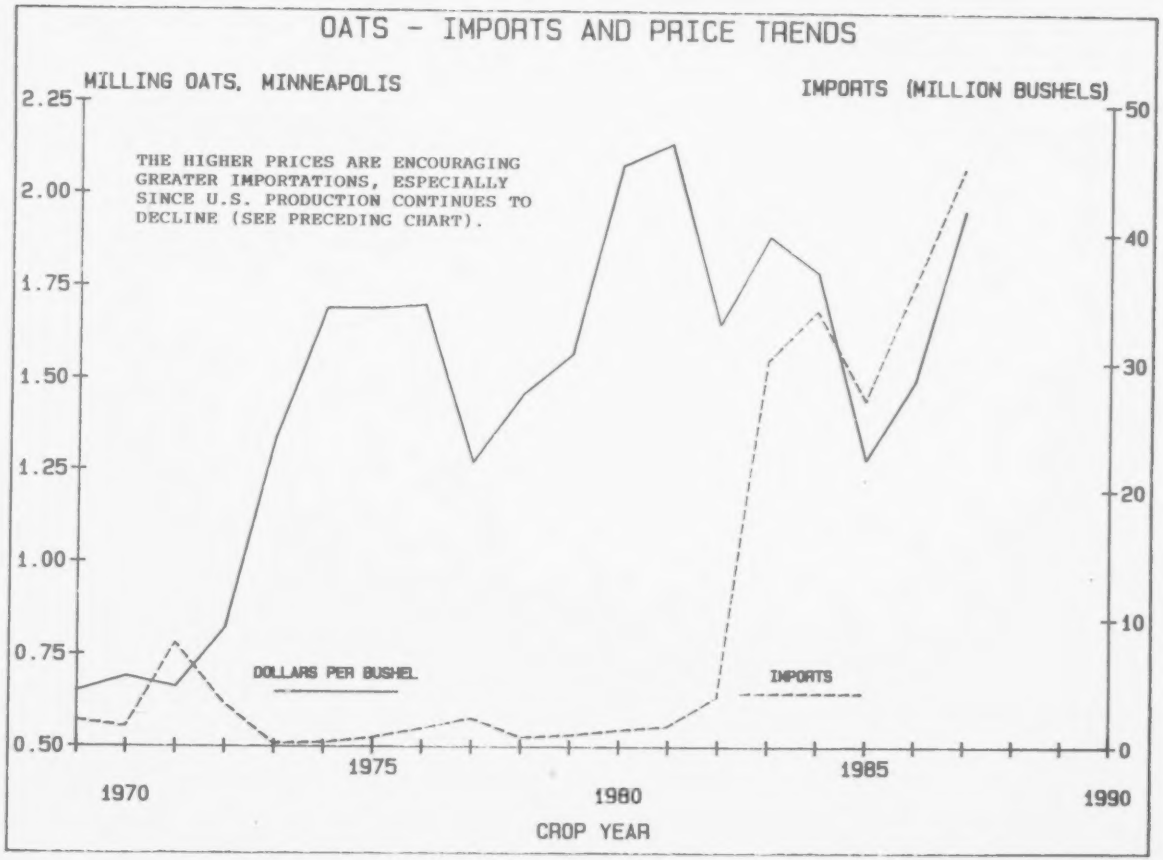

OATS - IMPORTS AND PRICE TRENDS
MILLING OATS, MINNEAPOLIS
IMPORTS (MILLION BUSHELS)
THE HIGHER PRICES ARE ENCOURAGING GREATER IMPORTATIONS, ESPECIALLY SINCE U.S. PRODUCTION CONTINUES TO DECLINE (SEE PRECEDING CHART).
2.25
2.00
1.75
1.50
1.25
1.00
0.75
0.50
50
40
30
20
10
0
DOLLARS PER BUSHEL
IMPORTS
1970
1975
1980
1985
1990
CROP YEAR

TABLE 4

OATS - IMPORTS, UNITED STATES

ORIGIN	CROP YEAR BEGINNING JUNE 1					
	1982	1983	1984	1985	1986	1987
	MILLION BUSHELS					
CANADA	3.5	13.0	3.4	2.3	14.7	15.0
SEWDEN	0.0	8.5	16.4	22.1	11.9	5.0
FINLAND	0.0	7.1	13.0	2.8	5.8	0.0
AUSTRALIA	0.0	0.0	0.0	0.0	0.0	0.0
ARGENTINA	0.0	0.1	0.0	0.0	0.0	25.0
OTHER	0.0	1.5	0.6	0.0	0.0	0.0
TOTAL	3.5	30.1	33.5	27.2	32.4	45.0

SOURCE - Bureau of Census FT135, U.S. General Imports and internal estimates for the last half of the 1987/88 crop year

- High domestic prices for oats in U.S. markets is encouraging the importation of oats
- Canada consistently exports oats to U.S. markets
- In recent years, Sweden and Finland have become significant shippers to U.S. markets. A poor oats crops in that area in 1987 resulted in only limited shipments to the U.S.
- Argentina has become a significant source of oats destined for U.S. markets in 1988 with virtually all arrivals occurring since January 1, 1988

TABLE 5

OATS - AVERAGE GROAT PROTEINS

QUARTERS	U.S.	CANADIAN	ARGENTINE
JAS 86	14.24%		
OND	14.36%		
JFM 87	15.10%		
AMJ	14.89%		
JAS	15.31%	13.87%	
OND	16.15%		
JFM 88	16.28%	13.27%	12.10%
OVERALL AVERAGE	15.19%	13.57%	12.10%

NOTE - Canadian and Argentine proteins based on samples of oats imported into the U.S. by other firms

- One of Quaker's oats breeding objectives, namely higher proteins for oats, is being achieved for U.S. varieties
- U.S. oats proteins, even in poor years such as 1986, far exceed the protein levels of imported oats, especially those originating from Argentina
- The lower quality foreign oats will likely be blended with domestic oats, adulterating the supply of high quality U.S. oats

Senator CONRAD. Next we will be hearing from Mr. Thomas Lee, the vice president and general manager for procurement of General Mills. Welcome.

STATEMENT OF THOMAS J. LEE, VICE PRESIDENT AND GENERAL MANAGER FOR PROCUREMENT, GENERAL MILLS, INC., MINNEAPOLIS, MN, ACCOMPANIED BY WILLIAM VOLLINK, DIRECTOR FOR COMMODITY ANALYSIS

Mr. LEE. Thank you very much, Mr. Chairman.

Accompanying me here today is Bill Vollink on my right, who is the director for commodity analysis for General Mills. I would just say that I have met Phil Sisson for the first time today. I have heard of him frequently, but our thoughts are in great symmetry in terms of what he has expressed.

As you know, General Mills is a diversified food company headquartered in Minneapolis. Some of our best known products, including the Nation's most popular ready-to-eat cereal Cheerios, are made from oats. It is from that standpoint that we are grateful for the opportunity to testify today for oat production concerns us very deeply, as it does Phil. We hope these hearings will lead to measures that will help alleviate what we consider to be a crisis in the domestic oat supply, and I would repeat crisis, as opposed to a problem.

I am sure that you are aware of the health and nutritional benefits of oats. As these benefits become more broadly recognized, it becomes increasingly important to halt the decline in U.S. oat production.

We have always known that oats are high in protein and fiber. But the most dramatic news about oats is the recent medical findings that they may play a major role in reducing blood cholesterol levels.

I would like to at this time provide you with a brief overview of the current U.S. oats situation as we see it, Mr. Chairman.

Senator CONRAD. Let me just tell you that on the cholesterol question, I am not only a fan of oatmeal, I am also a big fan of Cheerios.

Mr. LEE. Thank you.

Senator CONRAD. We had our cholesterol tested here in the U.S. Senate, and I had the lowest cholesterol by far. Now, that is a pretty good endorsement, and I would be happy to be on a box of Cheerios. [Laughter.]

Mr. LEE. How about a Wheaties box?

Senator CONRAD. Yesterday, my staff presented me with a plastic Wheaties box that has the Minnesota Twins on it. I am a big Minnesota Twins fan, and your people have given me the boxes, the plastic boxes of the Twins and also the Redskins. Yesterday, my staff presented me with one of those plastic boxes, a replica of the Wheaties box with a picture of my family and me on it. Champions. 1988 Champions.

We could have that available. It is an excellent model.

Mr. LEE. You let us know who your agent is, and we will contact him. [Laughter.]

PRODUCTION DECLINES/IMPORTS

Production, as you know, has fallen short of consumption in 10 of the past 12 years in regards to oats. During the past 5 years, this production deficit has averaged 52 million bushels a year. To offset this deficit, the United States has had to import, as Phil said, in the neighborhood of 30 to 35 million bushels of oats each year from Canada, Argentina and the Scandinavian countries. Nevertheless, U.S. oat ending stocks are at record low levels coming into this crop-year in spite of those imports.

1981 AND 1985 FARM BILLS

The main reason behind this problem of continued U.S. oat production shortfalls and rising U.S. oat imports is the economic disadvantage established for oats relative to other crops, particularly barley, in the 1981 and 1985 farm programs. Target prices for feed grains were established on relative feed values, causing the target price for oats to fall nearly $1 a bushel below target prices for barley. On a per-acre basis, this target price differential between oats and barley amounted to about a $20 disadvantage for oats; at the same time, the acreage bases for oats and barley were combined, thereby allowing the producer to raise whichever crop offered the greater economic incentive—which under normal circumstances we would have welcomed, but when that incentive is being determined by something other than market signals, it is not a welcome situation.

The result was obvious. U.S. oat acreage planted for harvest declined 32 percent between 1982 and 1987. A 32 percent decline. This led to the following paradox: the need for U.S. oat imports increased, while export bonus subsidies were used to reduce U.S. barley stocks.

Let me say very quickly here, I am not trying to solve oats' problems or the crisis at the expense of barley. I am very much in support of the barley producers. We are major handlers of barley in Montana, and we are major sellers to the malting barley industry. We would like to see their situation maintained in terms of revenue. We are not asking for favorable treatment for oats but equitable treatment and flexibility for the producer.

1987 ADJUSTMENTS FOR OATS

Last year, we at General Mills expressed our deep concern about the problem that I just outlined on this economic disparity. We proposed lowering the oat acreage reduction requirement to 0 to 5 percent for the 1988 through 1990 crop-years. This proposal was passed in the 1987 Budget Reconciliation Act, as you know. We were most grateful for the positive response of Congress, as well as the Secretary's decision to voluntarily lift the cross-compliance for oats.

We noted at the time that, since 1981, barley stocks had nearly doubled in spite of subsidized exports, while oat stocks declined 23 percent to record low levels. We were optimistic coming into this year that this change would alter the declining trend in U.S. oat acreage. Early season indications were that U.S. oat acreage planted for harvest would increase nearly 16 percent from 1987, with

most of this acreage increase occurring in the Northern Plains States of North Dakota, South Dakota and Minnesota.

Assuming normal yields on this sort of acreage increase, harvested acreage increase, a U.S. oat crop of about 450 million bushels, which Bill Bailey mentioned earlier, was estimated for 1988. This would have represented a 20 percent increase from last year's very low record level crop.

1988 DROUGHT

Unfortunately, as we all know, Mother Nature has put a crimp on this outlook. The severe drought in the major oat-producing regions of the Northern Plains probably primarily, Mr. Chairman, in your State, as you well know—which we are historically very reliant on for our oat supplies—has severely reduced potential U.S. oat yields and production in 1988. Our current estimates—and I am reluctant to really give an estimate because we really do not know where it is. We had some surveys done, and we were told that these are based on the fact that we will have rain in 5 to 6 days. That rain did not come. So we frankly are not sure how to interpret some of the information which became outdated.

But we will estimate it for benchmarking purposes somewhere in the neighborhood of 250 million bushels, down one-third from last year's previous record low output, a third from that record low output and I would say subject to further decline based on weather.

Senator CONRAD. Just insert there, in my State we are really looking at an unmitigated disaster. I was out this weekend, and I would say we are 60 percent gone now. And there was a little bit of rain scattered but not enough to mean anything. The 5- and 10-day outlook is not good.

I think we are looking at just an absolute disaster in terms of what I have already seen there and in terms of the outlook. So I can understand your statement that the projections may not mean much because we are shooting at a moving target, and it is a target that is moving very quickly. We received estimates yesterday on the corn crop that a 4 percent loss occurs every day that goes by without rain. That is moving off a base where there is already substantial loss.

I tell you, in wheat, barley, oats, it has just devastated my States. The drought has already devastated it.

Mr. LEE. We would not disagree with that assessment. In fact, we very strongly concur with it. And I would say that, from our experience, North Dakota and parts of Montana are probably the most extreme, although many, virtually all, are having very serious problems.

We believe the U.S. has a very core, inelastic demand for oats of approximately 380 million bushels a year. There are no official numbers on that. I would say, and I think it is terribly important, what Phil said: The demand on the human consumption side is escalating very rapidly. Our increase over the last 10 years is somewhere in the neighborhood of around 4 percent annually, and I would say in the last couple or 3 years significant growth beyond that. And the projection, I would say, we are very optimistic.

So our analysis based on that, on the balance sheet, would indicate that there is a need to import somewhere in the neighborhood of 90 million bushels of oats during this current crop-year, more than double any previous oat imports, to meet this demand. That is to simply stay at kind of an absolute minimum pipeline level, significantly below where we have ever been on carryover.

RECOMMENDATIONS

In terms of recommendations, they do not differ a great deal from what Phil said and what Terry said. But with this crisis in mind, I would like to propose the following recommendations first one of a short-term, one of a medium- and one of a long-term nature.

In the short term, we recommend that the Secretary of Agriculture allow the harvesting of oats for grain on 1988 set-aside acres. We estimate that as much as 50 million bushels—and that is probably a very optimistic number at this point. I mean, we are dealing right now with, somebody said——

Senator CONRAD. Yes, set-aside acres.

Mr. LEE. Well, but it is interesting, Mr. Chairman, because we think there are heavy set-asides in some States that are not as devastated as is North Dakota. We think it is fairly heavy in Iowa and southern Minnesota and Illinois. But 50 million is not a fixed number, and I would say it is a very optimistic number. But it is something, and at this point something is a lot.

We would say that these oats could help to be used to offset the huge need for oat imports during the 1988–89 crop-year. We realize the precedent of this action makes it an extremely difficult decision. Frankly, the magnitude of the crisis I think demands this action. This recommendation is for the 1988 crop-year only.

To help alleviate concerns of the possible impact this action may have on other feed grain prices, I reiterate that oat prices are at record high levels and that an additional 90 million bushels of oat imports are needed in 1988–89 in order to maintain minimum pipeline U.S. supplier.

The oat harvested from set-aside acres would help reduce this huge need for imported oats. And let me really underline what Phil said and what is very painful for me, and that is: Why should our domestic producers, both on a short-term basis and on a long-term basis, not be the beneficiaries as opposed to the foreign producers who are simply coming in at times of premium prices? I think that is a very important point.

I should add that there is great urgency of this action. It must be immediate because a large portion of the oat set-aside acres will be destroyed in the next week to 10 days to meet farm program requirements. And, of course, a lot already has, as you know.

In the medium term, we strongly recommend that the acreage reduction requirements for oats be set at zero if the Secretary determines that the ARP requirements for feed grains should be lowered from the present 20 percent. And I assume that he will do that. This would establish a rough balance with respect to the economic decisions farmers make when deciding whether to grow barley or oats. If the oat ARP were left at 5 percent, the economic

return from farm programs would again favor barley production, continuing the need for oat imports in future crop years.

In the long term, we feel that the disparity of economic returns from farm programs for barley and oats must be corrected on a permanent basis. As long as oats and barley share a common program base, there will be competition for acres between the two crops. Oats and barley have similar production costs and nearly equivalent yields. With the barley target price almost $1 per bushel higher than the oat target price, the production of barley is naturally favored. Unless this disparity is resolved, U.S. oat production will continue to decline despite high market prices and rising consumer demand.

BENEFITS

Mr. Chairman, there are economic and social reasons why we should increase our production and harvesting of oats.

One benefit is that producers who harvest oats on their set-aside acres will receive greater income at a time of dire need.

A second benefit is that the United States will become less dependent on foreign oat production, hence improving the balance of trade.

And lastly, the third benefit concerns the recognition and the awareness of the increased health benefits of oats which I mentioned earlier.

It would, I think, be appropriate and desirable to return to a more normal oat supply during a period when the health benefits of oats are being more broadly recognized.

Thank you very much for your time, and we look forward to answering any questions you might have.

Senator CONRAD. Let me ask you, Mr. Lee, if you have formulated a recommendation on the question of a separate base for oats.

Mr. LEE. We have some concern about a separate base. We are not opposed to it. We have concern about how that base would be set, Mr. Chairman. And if it is based on recent years' plantings, where we feel it has been distorted because of the wrong incentives, if you will, growing for something other than oat, we would have a concern. If it is equitably set, we would be favorable to that.

I do not think it is essential if you have parity or equality in terms of deficiency payments or target prices, et cetera.

[The prepared statement of Mr. Lee follows:]

STATEMENT OF THOMAS J. LEE,

VICE PRESIDENT AND GENERAL MANAGER FOR PROCUREMENT

GENERAL MILLS, INC.

MINNEAPOLIS, MINNESOTA

HEARING ON BARLEY AND OATS

SUBCOMMITTEE ON AGRICULTURE PRODUCTION

AND STABILIZATION OF PRICES

U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

RUSSELL SENATE OFFICE BLDG.

ROOM 328 A

10:00 A.M.

JUNE 23, 1988

Mr. Chairman and members of the Committee.

My name is Thomas J. Lee. I am Vice President and General Manager for Procurement for General Mills, Inc., of Minneapolis, Minnesota. General Mills is a diversified food company. Some of our best known products, including the nation's most popular cereal, Cheerios, are made from oats.

I am grateful for the opportunity to testify today. Oats production concerns us deeply. We hope these hearings will lead to measures that will make it unnecessary to seek additional short-term relief.

I am eager to testify because of the health and nutritional benefits of oats. As these become more broadly recognized, it becomes increasingly important to halt the decline in U.S. oat production.

Oats are high in protein and fiber. In fact, the protein content of oats is greater than that found in other cereal grains. Most oat processing uses the entire grain, thereby retaining vitamins and minerals that other grains lose in the milling process.

The most dramatic news about oats, however, is the recent medical finding that it may play a role in reducing blood cholesterol levels. Recent studies show that water-soluable fibrous plant material in the diet can lower the level of cholesterol in the blood. Oat bran is water-soluable. Some other food grains are not, according to the USDA.

Production Declines/Imports

Mr. Chairman, my starting point is the decline in oat production that occurred between 1960 and 1987. The United States went from a nation that produced more than 1 billion bushels a year to a nation that produced less than 400 million bushels a year. That's a 60 percent decline. Production reached such low levels that consumption has exceeded production in ten of the last 12 years. U.S. oat production levels today are lower than at any time in the 20th Century, and in each of the past five years the U.S. has imported 30-35 million bushels of oats from Canada, Argentina, and the Scandanavian countries.

The United States is not just an importer of oats. The U.S. is the world's leading importer of oats. And oats are the only major grain that is imported into this country in significant amounts.

If all available cropland were in production, and the U.S. still could not produce enough oats to meet demand, it might make sense to import oats. But the U.S. is importing oats while millions of cropland acres remain idle. It's difficult to see the rationale behind that contradiction.

1981 and 1985 Farm Bills

Oat imports are a direct result of the impact the 1981 and 1985 farm programs have had on oat production.

The 1981 farm bill established oats as a program commodity with a loan rate and a target price. The target price was set according to a feed relationship to corn at 51 percent of the corn target price. This formula did not take into account the changing value of oats as a food grain versus a feed grain, or the differing net returns to producers on a per-acre basis.

In implementing the 1981 legislation, the U.S. Department of Agriculture (USDA) established a combined acreage base for oats and barley. The barley target price was set at 77 percent of the corn target price. Since the oat target price was only 51 percent, farmers who grew oats instead of barley stood to lose about $1 a bushel. On a per acre basis, the government-guaranteed target price for barley provided $20 more than the government-guaranteed price for oats.

The competitive advantages and disadvantages in that situation were not difficult to forecast. With growers able to make $64.48 an acre from barley and only $44.08 from oats, a decline in oats production was a foregone conclusion. Oats production fell 39 percent between the 1982 and 1987 crop years. At the same time, consumer demand for oat-based products was on the rise. General Mills' use of oats, for example, has increased 36 percent over the last ten years.

The 1985 farm bill requires growers to keep a percentage of their Feedgrain Base out of production. This Acreage Reduction Program (ARP) requires growers to plant a ground cover. The crop that is planted, however, cannot be harvested, and growers frequently plant oats as ground cover on their "non-productive" set-aside acres. As a result, about 8 million acres of U.S. oats (200-300 million bushels) are plowed under each year prior to harvest.

Another factor that limits oat production is the Conservation Reserve Program, which removes marginal land from production for extended periods of time. In many areas, oat production is relegated to marginal land. The CRP has removed 620,000 acres from oat production since 1985. An additional 300,000 acres are expected to be removed in 1988.

1987 Adjustments For Oats

Last year we thought we had a temporary solution. After reviewing the data and considering the consequences, the Congress adopted an amendment to the 1987 Budget Reconciliation Act that reduced the ARP for oats from 20 to 5 percent. The barley ARP remained at 20 percent.

This amendment created a situation where growers would be allowed to plant and harvest oats on 95 percent of their land instead of being limited to 80 percent. The budget amendment also authorized the Secretary of Agriculture to reduce the oats ARP to 0 percent whenever conditions warranted. In addition, Secretary Lyng voluntarily eliminated cross-compliance for oats.

We had reason to be optimistic.

Then came the drought of 1988.

1988 Drought

This is not just a regional drought. This is a national drought. It affects the Midwest, the Rocky Mountain states, the South and the Great Plains most visibly. But it affects everyone else as well. It stretches from Montana into Tennessee, North Carolina, Georgia and Florida.

The speed at which the drought is growing is alarming. On June 7, a total of seven states were judged to have a drought emergency. A week later, 18 states were on the list.

What makes this drought so severe is that it comes on the heels of a dry 1987. That combination has made the dry spell in the Midwest the worst since the days of the Dust Bowl some 50 years ago.

Meanwhile, the National Weather Service has forcast that no break in the weather pattern will occur next month. Forecasters say if the high-pressure system over the nation's midsection lasts into August, it could signal a somewhat smaller version of the devastating weather pattern that dominated the mid-1930's.

Consider then the impact this drought will have on livestock and crops; and the impact it will have on food prices -- not just this year but next year as well.

As far as oats are concerned, the drought is withering not just the crops but the incentives developed last year to increase oat production.

Ending stock levels of corn and wheat have dropped so fast that Secretary Lyng may have no choice but to take independent action to increase production. The Secretary has authority to lower the corn ARP from 20 to 12 1/2 percent and to lower the wheat ARP from 27 1/2 to 0 percent, although a ten percent level already has been announced. Since other feedgrain parameters are determined by corn, the corn ARP reduction will also result in a barley ARP of 12 1/2 percent.

This will again place oats at an economic disadvantage relative to barley.

Recommendations

Mr. Chairman, at the outset I expressed my hope that these hearings would result in policies that eliminated the need to continue seeking short-term relief. In keeping with that objective, I respectfully make three suggestions.

The first is an immediate measure which I believe is needed precisely because the current U.S. Oat situation is an emergency.

The second is a mid-range proposal that will allow U.S. oat production to compete more favorably with other feedgrains under the existing 1985 farm program parameters.

The third is a suggestion for the development of a long-term approach that maintains net returns on oat production on an economic par with barley and other grains.

As a short-term solution, we recommend that the Secretary of Agriculture exercise his emergency authority and allow farmers to harvest oats for grain on set-aside acres during the 1988 crop

year. The need for action on this matter is urgent, because many set-aside acres will be destroyed next week to meet program requirements.

We are fully aware of the precedent this action establishes. We debated long and hard before arriving at our recommendation. We feel, however, that the impact of the 1988 drought has caused an extremely unusual situation that necessitates emergency action.

This year, over 16 million acres of oats were planted in the U.S. Approximately eight million acres are expected to be harvested for grain. The remaining 8 million was planted as ground cover on set-aside acres and are not expected to be harvested. It makes sense to allow producers to harvest these oats for grain instead of plowing them under. Otherwise these oats will be replaced by oat imports.

Our pre-drought estimates were that the 1988 oat crop would total approximately 450 million bushels. Right now it looks like the U.S. is going to be 150 to 200 million bushels short.

What does that mean besides possibly having a 45 percent shortfall? It means an oat crop about one-third less than the 374 million bushels that were harvested last year -- the lowest oats harvest in our history. It means a 1988 prospect of continuing price increases in cereals and greater U.S. dependence on foreign oats.

We are not asking the Secreatary to permantly allow growers to harvest oats from set-aside acres. We ask only for a one-year exemption from existing policy, an exemption limited to the 1988 crop year.

Under 7 U.S.C. 1444e (f) (7) (B), the Secretary may, by mutual agreement with producers on a farm, terminate or modify any agreement he believes contributes to a shortage in the supply of agricultural commodities. Severe drought is cited as one condition that could warrant such a decision. Although other "disasters" are not spelled out, the drought and the continuing decline in oats production in the face of increasing food demand would seem to meet the criteria set forth in the law.

Our analysis indicates that harvesting oats for grain on set-aside acres will not have a negative impact on corn prices. An additional 100 million bushels of oats, which we believe represents the most that could be harvested from set-aside acres this year, amounts to less than one percent of the expected total 1988 corn supplies. In addition, oats do not compete as a normal feedgrain when oat prices exceed 60 percent of corn prices on a bushel basis. Oat prices currently are 113 percent of corn prices, far in excess of oats' normal feed value.

General Mills recently conducted a survey of oat producers to determine if there was grower support for this proposal. The producers are located in North Dakota, South Dakota and Minnesota. The survey showed that 69 percent favored the harvesting of set-aside acres as a means to stem the tide of rising oat imports.

Although this change would help in the near term a more permanent solution needs to be devised.

As a <u>mid-range solution</u> for the 1989 crop year, we strongly

recommend that the acreage reduction requirements for oats be set at zero if the Secretary determines that the ARP requirements for feed grains should be lowered from the present 20 percent. The 1987 Budget Reconciliation Act provided the Secretary with this authority.

A zero percent ARP for oats would begin to establish a rough balance with respect to the economic decisions farmers make when deciding whether to grow barley or oats. If the oat ARP were left at 5 percent, the economic return from farm programs would again favor barley production, heightening the need for oat imports in future crop years.

The zero percent ARP for oats is needed if we truly want to come to terms with this disparity in our farm program and begin to bring under control the problems I have described.

The long-range solution requires that we address the disparity between the oat and barley target prices. As long as oats and barley share a common program base, there will be competition for acres between the two crops. Oats and barley have similar production costs and nearly equivalent yields. With the barley target price almost $1.00 per bushel higher than the oat target price, the production of barley is naturally favored. Unless this discrepancy is resolved, U.S. oat production will continue to decline despite high market prices and rising consumer demand.

Benefits

Mr. Chairman, there are economic and social reasons why we should increase our production and harvest of oats.

One benefit is that producers who harvest oats on their set-aside acres will receive greater income at a time of dire need.

A second benefit is that the United States will become less dependent on foreign oat production, hence improving the balance of trade.

A third benefit concerns our health. We have known for some time that oats are a good source of protein, vitamins and bran. Recent studies, as I noted earlier, now suggest that oat bran plays a role in reducing cholesterol. It would, I believe, be appropriate to return to a more normal oat supply during a period when the health benefits of oats are being more broadly recognized.

Thank you.

Senator CONRAD. Would any of the three of you want to make any further comment, or comment on what you have heard from any of the other witnesses? I would like to give witnesses the opportunity to comment. Terry.

Mr. MURPHY. Yes, Mr. Chairman. Thank you. Just very briefly, a couple of other points.

Our position on the harvesting of oats from set-aside acres this year could be one of support if a couple of things were met: if it was for sure that it was only 1 year at a time based upon an emergency declaration by the Secretary; and if it was as part of some other actions in regard to the drought. You know, it is unfair, in essence, to the farmers that raise oats most years and comply with the program. But in an emergency situation, if it is part of an overall drought strategy, 1 year at a time, we could support that.

Just one other point that I would like to make, and it is from a farmer's point of view, certainly. But I would urge extreme caution in getting into separating classes and qualities of the same grain within the farm program. I would much rather see the farm program as the base under grains and that incentives for quality or specific uses be left as a function of the marketplace.

With that, I would have no more to say unless you have questions.

Senator CONRAD. All right. Phil, any further comment?

Mr. SISSON. Well, I would like to stress the feeling that we certainly agree that target prices need to be adjusted, and certainly some equity or equitable target for oats relative to, not just barley, but wheat and corn and grain sorghum, would certainly be helpful. And I believe that the basis for that should be the economic costs that we have for those particular crops rather than the feeding value that we use today to establish that relationship.

Senator CONRAD. All right. Mr. Lee.

Mr. LEE. Just a comment, if I might, Mr. Chairman. We had a couple of arguments, more than a couple, made against utilization of set-aside for harvesting of grain. One is that a considerable amount has already been cut for hay, and it would be inequitable to those people. That is very painful to me because I would hope that if we had known 2 weeks ago or 3 weeks ago the severity, as we do today, that we would make this decision. And two rights do not make a wrong sort of thing, and I guess the option is: Do we pay these premiums, in fact, to foreign producers?

The other issue is—and Phil is talking about the great reluctance to use foreign oats, and I concur with that. We have been in this business of making Cheerios for over 50 years with almost exclusive use of American oats. There is an inherent reluctance. We will say that once you are forced, I would say, Phil, into that situation, you learn how to use them. And although you are reluctant initially, you are forced to learn how to use them, and it can become an ongoing thing. And I think that is a very negative situation when we have the ability to produce oats, high quality oats, as Phil said.

Mr. SISSON. As I mentioned, we certainly have been reluctant to do so, but I suspect before this year is out we are definitely going to be forced to utilize or at least to look at foreign oats.

I might add also that the availability of foreign oats might also become a problem. So then we do have a very significant situation facing us.

Also, back to the idea of harvesting grain on set-aside acres, one of our concerns is we are already hearing reports that in some areas some oats fields that were planted with the idea that they were going to be harvested for grain, farmers are already starting to clip some of those, cut them for forage, primarily due to the very poor situation that is already developing in this particular crop. This would not be just in North Dakota, but this would certainly be one of those areas. But I think the same thing is occurring in some areas of South Dakota, Iowa, as well as Minnesota.

Senator CONRAD. All right. Well, I want to thank this panel. I want to thank you individually and collectively. You have provided excellent testimony. You have been very helpful for us here today.

Next we will be hearing from a panel that includes Mike Davis, executive vice president of the American Malting Barley Association; Louis Arnold, vice president of the National Barley Growers Association. Louis Arnold is from Esmond, North Dakota. And Ken Stephens, the director of trade servicing of the U.S. Feed Grains Council.

We want to welcome all of you. Good to have you here. Especially nice to have a constituent here. Esmond, North Dakota, you cannot get any better than that.

We will operate under the same procedure. If you want to summarize your prepared statement, feel free to do that, and we will enter your prepared statement into the record.

With that, we will proceed with Mike Davis, executive vice president of the American Malting Barley Association.

STATEMENT OF MICHAEL P. DAVIS, EXECUTIVE VICE PRESIDENT, AMERICAN MALTING BARLEY ASSOCIATION, INC., MILWAUKEE, WI

Mr. DAVIS. Thank you, Mr. Chairman. I am pleased to have this opportunity to discuss the barley situation from the standpoint of the malting and brewing industry.

The 1985 farm bill has been in effect for two full crop-years, 1986 and 1987. Malting barley production and stocks during this period were adequate to meet the needs of the malting and brewing industry. However, the American Malting Barley Association is concerned about having an adequate supply of malting barley this year due to the drought, the severe drought in Minnesota, Montana, North Dakota, and South Dakota.

There is no doubt that old crop barley stocks will be inadequate to meet the needs of our industry. The additional needs of our domestic industry will have to be met with this year's crop or with imports. Now, this is at a time when U.S. farm programs are designed to stimulate exports. There may not be enough malting barley available for the malt export market. The domestic market has top priority for all available malt.

Due to the severe drought and excessive heat, the prospects for this year's crop supplying an adequate supply of malting barley are in doubt. The crop has been irreversibly damaged. Old crop stocks

of suitable malting barley will be drawn down this year to make up for the limited production. This will leave our industry almost entirely dependent on the 1989 crop for our supply of malting barley. A continued drought in 1989 could leave our industry critically short of malting barley.

I am here today on behalf of the American Malting Barley Association which I will just refer to as AMBA. The AMBA is a Milwaukee-based, non-profit trade association comprised of major brewing companies and all major malting companies. The purpose of AMBA is to encourage the increased production of suitable varieties of malting barley.

The AMBA makes substantial grants to State and Federal experiment stations in support of malting barley research programs in seven States, including North Dakota, granting over one-half million dollars per year. The overall objective of the AMBA research program is the development of varieties that combine superior malting and brewing qualities for our industry with superior agronomic characteristics for the producer. The AMBA support augments State and Federal funds allocated for barley research. The USDA Agricultural Research Service, for example, funds about $2.5 million in barley research per year.

MALTING AND BREWING PROCESS

Although classified as a feed grain in the farm program, malting barley is not a feed grain. There is no alternative grain that can be substituted for malting barley. Beer cannot be made without it. The U.S. malting barley crop is small. It can be substantially impacted by small changes in supply and demand.

ECONOMIC IMPORTANCE OF MALTING BARLEY

Barley is a significant U.S. crop. Barley production in the last 5-year period—1983-87—has averaged 567 million bushels per year, with an estimated annual value of $1.2 billion as a raw agricultural commodity. Approximately 25 percent of the barley crop is used for malt production, the remainder is utilized as animal feed, for exports, as seed, and in food products.

The impact of malting barley on the U.S. economy is substantial.

Federal excise taxes on fermented malt beverages annually generate over $1.6 billion in Federal revenue. In addition, it is estimated that the beer industry generates over $6 billion per year in Federal income tax revenues and $4.7 billion per year in State and local revenues. The estimated total economic contribution of the beer industry to the U.S. economy is $114 billion supporting 2 million jobs.

It is clear that the U.S. feed grains program for barley must be properly designed and implemented to provide an adequate supply of malting barley for our industry, and thereby ensure its continued economic viability.

BARLEY VARIETIES

The malting barley supply is limited by two major factors: varieties and quality. High quality malt can only be produced from certain barley varieties. It is not possible to utilize feed varieties for

malting. Only about 50 percent of the U.S. barley crop is planted to suitable malting barley varieties. So right there we have limited our supply by about half.

North Dakota, Minnesota and South Dakota are the major malting barley producing States in the Midwest. Winter varieties are not adapted to this region, and only spring varieties are grown. Most U.S. six-row malting barley is produced in these three States. In 1987, approximately 83 percent of the acreage, 4 million of the total 5 million acres was planted to suitable six-row malting varieties. Two-row malting barley varieties are not adapted to the climate in this region; thus, there is no two-row malting barley production in the area. There is some feed two-row production; approximately 10 percent of the acres, primarily in western North Dakota and South Dakota, are planted to feed two-row varieties.

Malting barley is primarily grown in six States in the West: Colorado, Idaho, Montana, Oregon, Washington, and Wyoming. Both two-row and six-row spring barley varieties are produced in these States, with some of the acreage in Colorado, Idaho, Washington and Oregon also planted to winter feed barley varieties.

Feed barley varieties dominate the barley acreage in these Western States. In 1987, feed varieties were planted to 3.2 million acres, or 73 percent of the total seeded acres. Only 1.2 million acres, or 27 percent of the planted acres, were seeded to suitable malting barley varieties, almost all two-row varieties. While the West is the major source of two-row malting barley for our industry, only 150,000 acres were planted to six-row malting varieties in these Western States.

BARLEY QUALITY

Not only must barley be of a suitable variety to be utilized for malting, it must have certain required quality characteristics. In addition to variety, an important barley quality factor is the ability to germinate. It must germinate or we cannot make malt out of it. In a drought condition, oftentimes you have actually killed the barley kernel, and we cannot use it.

Protein content is very, very important. Again, in drought conditions, the protein content is greatly increased, and it makes it almost unprofitable to use high protein content barley. It is the opposite of feed barley because high protein is favorable for feed. The higher the protein in barley, the less of that you can convert to beer.

Plumpness is also very important.

Senator CONRAD. What is the guideline there? At what level does the protein content become too high?

Mr. DAVIS. In six-row barley, say out of your State, we are looking for barley between 12.3 and 13.7 percent. Now, we cannot go too low on protein either because we need protein for the foam in the beer, beer stability, flavor, also the enzymes to break down the starch, and also for the nutrition of the yeast. So there is a bottom level. We need a certain level of protein. But if we go up too high, then a lot of the kernel will be devoted to protein, and less of that can be converted into soluble extract; otherwise, beer.

So there is a narrow range that we can really work with effectively, and we try to balance these things. We need enough protein to satisfy the needs in the brewing process, but not too much so that we get an economical beer production out of that particular malting barley.

Now, depending on the crop-year, that portion of the barley crop of suitable variety that has the necessary quality for malting can range from 40 to 75 percent. In my figures for 1986 and 1987, I will use an average of 60 percent. I would say this year in the Midwest States, it is going to be well below 40 percent. It might be 40 percent. A lot of it is not going to be usable.

MALTING BARLEY REQUIREMENTS OF THE INDUSTRY

Now, the U.S. malting and brewing industry requires approximately 140 million bushels per year of barley of suitable variety and quality. Carryover stocks of suitable old crop malting barley at the start of the 1986 and 1987 crop-years were about 100 million bushels. Production of suitable malting barley in 1986 and 1987 was 183 and 149 million bushels, respectively. So we did have an adequate supply of old barley stocks, and very good crops were produced those years.

At this time, we do not have complete information on the availability of old crop barley. Unfortunately, quarterly barley stock reports were eliminated by the USDA; only an annual estimate was retained. The last estimate was made June 1 of last year; the next report——

Senator CONRAD. Let me just stop you right there. That is something we should probably make sure goes back as a message, especially in terms of what we are facing here. It would be very, very helpful, I would presume, to have those statistics available to us on a quarterly basis.

Mr. DAVIS. I am very happy to report, and I want to thank Congress for restoring funding for quarterly barley stock reports. That was done in fiscal year 1988 appropriations. We are going to get them back on a quarterly basis.

Senator CONRAD. When will that start?

Mr. DAVIS. We will get the June 1 stock report that will be released June 30, and then we are back to quarterly barley stock reports.

Senator CONRAD. Excellent. So you mean we have actually solved a problem here? It has already been solved?

Mr. DAVIS. Yes. The USDA saved $45,000 for 1 year by eliminating these very important stock reports. We are glad to have them back again.

OUTLOOK FOR THE 1988 CROP

Now, due to the severe drought and excessive heat, the prospect for this year's crop supplying an adequate supply of malting barley is in doubt. The crop has been irreversibly damaged. In the three Midwest States, Minnesota, North Dakota, and South Dakota, production could be as low as 125 million bushels or 45 percent lower than in 1987. I want to point out, we made this estimate a week ago. I think it is worse right now.

With an estimated 85 percent of the Midwest acreage planted to malting barley varieties, only 106 million bushels would be of a suitable variety out of the Midwest area. Now, the drought and heat will have a severe impact on the quality of this barley. A large portion will be too thin, will have too high a protein level, and may not germinate properly. We are not sure of the percentage, but we know it is going to be very, very low.

Looking out West, in Montana the drought and heat also are taking their toll. Almost 50 percent of the barley crop is rated poor to very poor. A portion of the crop has failed. Only an estimated 38 percent of the 2 million acres planted in Montana were seeded to suitable malting barley varieties. In eastern Idaho, the major barley-producing area of the State, the dryland barley is having problems due to the drought conditions. Not quite as bad there as they are in Montana, however.

Now, conditions in other Western State are better. However, the production of suitable malting barley from these States is not substantial when compared to the drought-plagued States. For example, Washington and Oregon will probably produce a very good barley crop. However, only about 7 percent of the acreage is planted to varieties that we can even use. So it will not do us much good.

FARM PROGRAM

Now, the question is: Is the 1985 farm bill working from our perspective? Until a review of the farm program by our members is completed and a consensus is developed, I cannot be too specific about our position. However, I would like to make a few general points and observations.

In 1986 and 1987, weather conditions were generally favorable and supplies of malting barley were adequate for our industry. This is not the case for 1988. The severe drought in the major malting barley-producing States will adversely affect the supply of malting barley for our industry. Clearly, the 2.45 million idled acres of barley in the nine major malting barley-producing States has further limited the supply of suitable malting barley. Midwest six-row malting barley prices have been stable since 1986, ranging from $1.50 to $2.15 per bushel (Minneapolis). However, in the past month, prices have skyrocketed to $4.50 per bushel for six-row malting barley; this is a Minneapolis basis.

Now, this is almost a record. It almost beat the record set in 1974 which is a little bit higher than that.

Clearly, old crop stocks of suitable malting barley will be drawn down this year to make up for the limited production in 1988. This will leave our industry almost entirely dependent on 1989 crop production for next year's supply of malting barley. A continued drought in 1989 could leave our industry critically short.

Once the full impact of the drought and supply situation are known, the USDA will need to give serious consideration to acreage set-asides for the 1989 barley crop. It may be necessary to reduce or eliminate the set-aside for all barley. On the other hand, it may be determined that supplies of feed barley are in excess, justifying an acreage set-aside for feed barley, but not for malting

barley, due to critically short supplies. Under this situation, in order to ensure an adequate supply of malting barley, the Secretary may need to invoke under title IV of the Food Security Act of 1985 the so-called "malting barley exemption," which states—and I shall read it:

> The Secretary may provide that no producer of malting barley shall be required as a condition of eligibility for feed grain loans, purchases, and payments to comply with any acreage limitation under this paragraph if such producer has previously produced a malting variety of barley for harvest, plants barley only of an acceptable malting variety for harvest, and meets such other conditions as the Secretary may prescribe.

Mr. Chairman, this concludes my remarks, and I would be happy to answer any questions.

[The prepared statement of Mr. Davis, with attachments, follow:]

U.S. SENATE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

BARLEY AND OATS HEARING
June 23, 1988

Michael P. Davis[1]
Executive Vice President
American Malting Barley Association, Inc.

Mr. Chairman, members of the Subcommittee, I am pleased to have this opportunity to review the barley situation from the standpoint of the malting and brewing industry. The American Malting Barley Association, Inc. is a non-profit trade association comprised of the top three U.S. brewing companies; Anheuser-Bush, Inc. (with plants in CA, CO, FL, MN, MO, NH, NJ, NY, OH, TX, VA, WI), Miller Brewing Co. (CA, GA, NY, NC, TX, WI), the Stroh Brewery Co. (CA, FL, MN, NC, PA, TN, TX); and Latrobe Brewing Co. (PA). AMBA membership also includes all major U.S. malting companies; Fleischmann-Kurth Malting Co. (WI, IL, MI, MN), Froedtert Malt Corp. (MN, WI), Great Western Malting Co. (CA, ID, WA), Ladish Malting Co. (ND, WI), Minnesota Malting Co. (MN), Rahr Malting Co. (MN), and Schreier Malting Co. (WI).

The business and purpose of the American Malting Barley Association, Inc. (AMBA) is:

1. To encourage the increased production of appropriate varieties of malting barley through direct contact and support of breeding programs, education, and public relations at all levels associated with the research, production, and distribution of malting barley.

AMBA makes substantial grants to state and federal experiment stations in support of malting barley research programs in seven states, granting over one-half million dollars per year. The overall objective of the AMBA research program is the development of varieties that combine superior malting and brewing qualities with superior agronomic characteristics. AMBA supported barley breeding programs strive to improve the agronomic characteristics (yield, disease and lodging resistance) of malting barley varieties. Agronomic improvements enable the producer to realize an economic return on this crop, thereby making it competitive with other crops and insuring an adequate supply of this primary raw material for our industry. AMBA's support augments state and federal funds allocated for barley research. The USDA Agricultural Research Service, for example, funds $2.5 million in barley research per year.

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1 - Dr. Davis received a B.S. in Biology from the University of Connecticut, a M.S. in Agronomy from Purdue University, a Ph.D. in Agronomy and Biochemistry from the University of Nebraska, and was a Post-Doctoral Research Associate at the University of Wisconsin in Agronomy and Soils, before joining AMBA in 1983.

2. To provide an organization that will represent maltsters and brewers in all appropriate ways in order to maintain or improve the effective and efficient manufacture, transportation and use of malt and malt products.

3. To maintain liaison with state and federal governments, particularly with respect to agricultural matters and potential funding of barley improvement programs.

MALTING AND BREWING PROCESS

Malt is produced from barley by germinating moistened barley under controlled conditions for a short period of time. Germination brings about changes in the barley, including development and activation of enzyme systems important in the subsequent commercial use of malt. Malt is the primary and key raw material utilized in the production of beer. Most malt produced in the U.S. is used for beer production. Some malt is utilized by distillers and in certain food products, such as breakfast cereals.

At the end of the germination process in malting, germination is ended by kilning (drying with heat). Rootlets that formed during germination are removed and the resultant product is malt. A malted barley kernel can be considered a package of starch (primary ingredient), proteins (including enzymes) and other biochemical compounds.

In the brewing process, a mixture of ground malt and water is heated under controlled conditions (mashing). During mashing, enzymes produced in the malting process break down the starch to sugars, and proteins to smaller units, including peptides and amino acids. The goal of mashing is to convert the maximum amount of solid malt to soluble material or extract. The brewer wants to convert as much of the malt as possible into beer. Therefore, barley quality factors that maximize extract are desired by the malting and brewing industry.

ECONOMIC IMPORTANCE OF MALTING BARLEY

Barley is a significant U.S. crop. Barley production in the last five year period (83-87) has averaged 567.4 million bushels per year with an estimated annual value of 1.2 billion dollars as a raw agricultural commodity. Approximately 25% of the barley crop is used for malt production, the remainder is utilized as animal feed, for exports, as seed, and in food products.

The impact of barley on the U.S. economy is even more significant if taxes generated and the value-added products resulting from its utilization as animal feed, in malt beverages, and in food products are also considered.

I will only consider the economic impact of malting barley.

FEDERAL REVENUES: Federal excise taxes on fermented malt beverages annually generate over $1.6 billion in federal revenue. In addition, the Beer Institute estimates that the beer industry generates about $6 billion annually in federal income tax revenues.

This figure excludes such federal revenue as social security and unemployment contributions.

STATE AND LOCAL REVENUES: The Beer Institute estimates that the beer industry contributes $4.7 billion annually in state and local revenues.

The Beer Institute estimates that the total economic contribution of the beer industry to the U.S. economy is $114 billion, supporting 2 million jobs.

Without malting barley, there would be no beer. The economic value of the U.S. malting and brewing industry is substantial. It is clear that the U.S. feed grains program for barley must be properly designed and implemented to provide an adequate supply of malting barley for our industry, and thereby insure its continued economic viability.

(NOTE: The Beer Institute is a Washington D.C. based trade association which represents the U.S. brewing industry and its suppliers)

BARLEY VARIETIES

TWO-ROW VS SIX-ROW BARLEY: Barley has flower florets on opposite sides of the head, each floret has three flowers (a central flower and two lateral flowers) giving six rows of flowers on each head. In six-row barley, all the flowers are fertile and six rows of kernels are formed. In two-row barley, only the central flowers in each three flower floret are fertile, the lateral flowers are infertile, thus only two rows of kernels are formed.

Six-row barley is also classified on the basis of the color of its aleurone (pearl). This classification refers to a layer of cells under the hull that can be either colorless (white) or blue. Examination for aleurone color is made using a barley pearling machine to remove the hull.

WINTER BARLEY VERSUS SPRING BARLEY: As the name implies, spring barley varieties are planted in the spring and harvested the same year they are planted. Winter barley varieties are planted in the fall, and harvested the following year, before spring varieties. Currently there are no winter barley varieties that are suitable for malting. Some winter barley is grown in Colorado, Idaho, Oregon and Washington. Most winter barley is grown in states outside the major spring barley producing states, such as Kansas, Kentucky, Maryland, Nebraska, New Jersey, North Carolina, Oklahoma , Pennsylvania, South Carolina, Texas, and Virginia.

FEED VARIETIES VERSUS MALTING VARIETIES: High quality malt can only be produced from certain barley varieties. This difference is best illustrated by an example. Steptoe is a six-row feed barley variety, which in 1987 was planted to 16 percent of the barley acreage in six major Western barley producing states (CO, ID, MT, OR, WA, WY). Morex is a six-row malting barley variety, the industry's quality standard and preferred six-row variety. Morex was planted to 21 percent of the Midwest (MN, ND, SD) barley acreage in 1987.

The conversion of malt starch to soluble sugars is the most critical aspect of the brewing process. Two measures of the ability of the enzymes in malt to break down starch to sugars are diastatic power and alpha amylase activity. For our discussion, definition of the units used to describe this enzyme activity are not important. Suffice it to say that the higher the activity, the greater the ability of the enzymes in the malt to convert the starch to soluble sugars. The diastatic power of Steptoe malt is only 23% of that of Morex malt, the alpha amylase activity of Steptoe malt is only 5% of that of Morex malt.

In conclusion, the amount of a feed variety malt that can be converted to usable solubles (beer) is very low as compared to a malting variety malt. Therefore, it is not possible to utilize feed varieties for malting.

One final note. The type and variety of malting barley utilized has an important impact on the flavor of beer. In order to maintain their own distinctive beer flavor and brand identity, each brewer will use its own prescribed mix of varieties. Thus some brewers will use only two-row varieties, some a combination of both two-row and six-row varieties, and others only six-row varieties. Some brewers use both blue and white six-row varieties, others will only use white six-row varieties.

BARLEY QUALITY

Not only must barley be of a suitable variety to be utilized for malting, it must have certain required quality characteristics. Conditions during the growing season, such as drought, high temperatures, poor management, too much rainfall, can result in the production of a crop of a suitable variety that can not be used for malting because it lacks the required quality. In addition to variety, important barley quality factors are: (1) germinability, (2) protein, (3) plumpness, and (4) physical condition.

Since malting is a germination process, if the barley does not germinate, malt cannot be produced. In general, our industry requires a minimum of 95 percent germination. Periods of drought with high temperatures prior to barley harvest can reduce germination. Wet conditions at harvest can also result in germination problems. Barley can sprout in the field, making it useless for malting. In other cases, high moisture barley must be dried at the elevator. If done improperly, the kernel can be killed. Germination may also decrease during storage.

The level of protein in barley has important direct and indirect effects on malting quality. One of the most important relationships is that of protein level to extract. As protein levels in the kernel increase, a smaller portion of the kernel is comprised of starch that can be converted to extract. Therefore, extract levels decrease as protein levels increase. You may reason that it would be desirable to reduce barley protein to the lowest level possible. However, this is not the case. Part of the malt protein is comprised of enzymes that are of critical importance in the beer making process. Other proteins are needed for yeast nutrition and are important for proper beer flavor, foam quality and stability.

All of these factors must be balanced by selecting barley with protein levels that optimize all required factors. Although the needs and specifications of brewers vary, in general we can set the following guidelines for usable protein levels: For six-row barley, 12.3 - 13.7%, for two-row barley, 11.8 - 13.2%.

In general, the malting and brewing industry is interested in barley with plumpness greater than 65 percent. Plumpness is defined as the percent of the barley that will be retained on a screen with slots 6/64 inch wide and 3/4 inch long. The malting industry is interested in plump barley, due to the relationship of plumpness to malt quality factors. In general, as barley plumpness decreases, extract levels also decrease.

There are other physical barley characteristics that are related to malt quality. Kernel moisture of less than 13.0% is desired, primarily due to the relationship of moisture to storage management. Low kernel moisture is necessary to minimize microflora (fungus, bacteria) growth in storage and resultant damaging heat generation.

Skinned and broken barley of less than 4 percent is also desired. Excessive skinned and broken kernels can result in uneven germination in malting and can reduce protection against microflora growth.

The malting and brewing industry also desires barley that is bright and not discolored. Discoloration is an indicator of the presence of microflora on the kernel, which will grow in the germination beds in a malthouse. Mold growth in the malthouse decreases quality of the malt and the beer made from that malt; mold-infected malt can also cause processing problems. In cases where discoloration is severe, the barley may not germinate or may result in undesirable flavors in beer.

Depending on the crop year, that portion of barley crop of suitable variety that has the necessary quality for malting can range from 40 to 75 percent (an average value of 60% is used for 1986 and 1987 crop estimates).

MALTING BARLEY REQUIREMENTS OF THE INDUSTRY

The U.S. malting and brewing industry requires approximately 140 million bushels per year of barley of suitable variety and quality.

MALTING BARLEY PRODUCTION AND STOCKS - 1986 and 1987

The 1985 Farm Bill has been in effect for two full crop years, 1986 and 1987. Accordingly, this section on malting barley production and stocks will concentrate on these two years.

On June 1, 1986, total U.S. old crop stocks were 324.8 million bushels. An estimated 103 million bushels were of suitable variety and quality for malting (324.8 Mbu X 0.53 suitable variety X 0.60 suitable quality). Estimated total U.S. production in 1986 was 610.5 million bushels. An estimated 183 million bushels were suitable for malting (610.5 Mbu X 0.50 suitable variety X 0.60 suitable quality).

On June 1, 1987, total U.S. old crop stocks were 336.4 million bushels. An estimated 100 million bushels were of suitable variety and quality for malting (336.4 Mbu X 0.50 suitable variety X 0.60 suitable quality). Estimated total U.S. production in 1987 was 527 million bushels. An estimated 149 million bushels were suitable for malting (527 Mbu X 0.47 suitable variety X 0.60 suitable quality).

Malting barley production and stocks during this period were adequate to meet the needs of the malting and brewing industry. A summary of total U.S. barley production, stocks, and malting variety distribution for this period is attached.

MIDWEST: North Dakota, Minnesota and South Dakota are the major malting barley producing states in the Midwest. Winter varieties are not adapted to this region and only spring varieties are grown.

Most U.S. six-row malting barley is produced in these three states. In 1987 approximately 83 percent of the acreage (4 million of the total 5 million acres) was planted to six-row varieties recommended for malting and brewing by AMBA. Two-row malting barley varieties are not adapted to the climate in this region, thus there is no two-row malting barley production in this area.

In 1986, barley production in these states totaled 266.9 million bushels, or 44% of total U.S. production of 610.5 million bushels. In 1987, production declined to 222.8 million bushels, or 42% of total U.S. production of 527 million bushels.

Midwest six-row malting barley production and stocks in 1986 and 1987 were adequate to meet the needs of our industry. Both years, excessive moisture immediately prior to and during harvest decreased the quality of the crop by increasing the incidence of moldy and/or field sprouted barley.

WEST: Malting barley is primarily grown in six states in the West; Colorado, Idaho, Montana, Oregon, Washington, and Wyoming. Both two-row and six-row spring barley varieties are produced in these states, with some of the acreage in Colorado, Idaho, Washington, and Oregon also planted to winter feed barley varieties. Feed barley varieties dominate the barley acreage in these Western States. In 1987, feed varieties were planted to 3.2 million acres or 73% of the seeded acres. Only 1.2 million acres or 27% of the planted acres were seeded to suitable malting barley varieties, almost all two-row varieties. While the West is the major source of two-row malting barley for our industry, only 150,000 acres were planted to six-row malting barley varieties.

In 1986, barley production in these states totaled 254.9 million bushels, or 41.7% of total U.S. production of 610.5 million bushels. In 1987, production declined to 231.8 million bushels, or 44% of total U.S. production of 527 million bushels.

Western two-row malting barley production and stocks in 1986 and 1987 were adequate to meet the needs of our industry.

OTHER STATES: In 1986 barley production in all other states totaled 88.8 million bushels or 14.5% of the total U.S. production

of 610.5 million bushels. In 1987 it decreased to 72.5 million bushels, or 13.8% of the total U.S. production of 527.0 million bushels. Acreage figures of malting versus feed varieties are not available for these states.

OUTLOOK FOR THE 1988 CROP

The American Malting Barley Association, Inc. is concerned about having an adequate supply of malting barley due to the impact of the severe drought in Minnesota, Montana, North Dakota, and South Dakota. At this time, we do not have complete information on the availability of old crop barley. Unfortunately, quarterly barley stock reports were eliminated by the USDA, only an annual estimate was retained. The last estimate was made June 1, 1987. The next report, for the period ending June 1, 1988, will not be released until June 30, 1988. We are thankful to Congress for restoring funding for quarterly barley stock reports. Stock estimates will again be issued on a quarterly basis, starting with the June 30th report.

There is no doubt that old crop barley stocks will be inadequate to meet the needs of our industry. The additional needs of our domestic industry will have to be met with this year's crop or with imports. This is at a time when U.S. farm programs are designed to stimulate exports.

Due to the severe drought and excessive heat, the prospects for this year's crop supplying an adequate supply of malting barley are in doubt. The crop has been irreversibly damaged. In the three Midwest states of Minnesota, North Dakota, and South Dakota, production could be as low as 125 million bushels, or 45% lower than in 1987. With an estimated 85% of the Midwest acreage planted to malting barley varieties, only 106 million bushels would be of a suitable variety. The drought and heat will have a severe impact on the quality of this barley. A large portion will be too thin, have too high a protein level, and may not germinate properly.

In Montana the drought and heat are also taking their toll. Almost 50% of the barley crop is rated poor to very poor. A portion of the crop has failed. An estimated 38% of the 2 million acres planted in Montana were seeded to suitable malting barley varieties.

Conditions in north, southwest and south central Idaho are good, however, the dryland barley in east Idaho, the major barley producing area, is having problems due to dry conditions. Only an estimated 33% of the 880,000 acres planted in Idaho were seeded to suitable malting barley varieties.

Conditions in other Western states are better, however, the production of suitable malting barley from these states is not substantial when compared to the drought plagued states. It is estimated that Colorado producers seeded 47% of their 200,000 planted acres to malting barley, Oregon only 7% of 225,000 acres, Washington only 6% of 530,000 acres, and Wyoming 67% of 156,000 acres.

FARM PROGRAM

Is the 1985 Farm Bill working from our perspective? Until a review of the farm program by our members is completed and a consensus is developed, I cannot be too specific about our position. However, I would like to make a few general points and observations.

In 1986 and 1987, weather conditions were generally favorable and supplies of malting barley were adequate for our industry. This is not the case for 1988. The severe drought in the major malting barley producing states will adversely affect the supply of malting barley for our industry. Clearly the 2.45 million idled acres of barley in the nine major malting barley producing states (CO, ID, MN, MT, ND, OR, SD, WA, WY) has further limited the supply of suitable malting barley. Midwest six-row malting barley prices have been stable since 1986, ranging from $1.50 to $2.15 per bushel (Minneapolis). However, in the past month prices have skyrocketed to over $4.00 per bushel for six-row malting barley (Minneapolis).

Clearly, old crop stocks of suitable malting barley will be drawn down this year to make up for the limited production in 1988. This will leave our industry almost entirely dependent on 1989 crop production for next year's supply of malting barley. A continued drought in 1989 could leave our industry critically short.

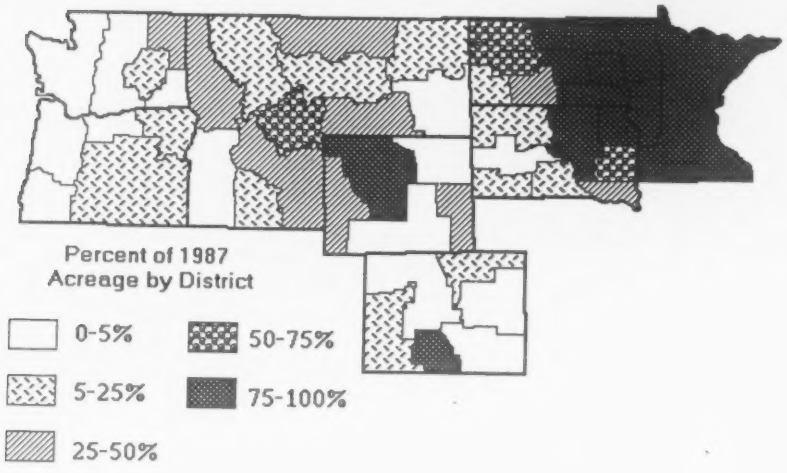
Once the full impact of the drought and supply situation are known, the USDA will need to give serious consideration to acreage set-asides for the 1989 barley crop. It may be necessary to reduce or eliminate the set-aside for all barley. On the other hand, it may be determined that supplies of feed barley are in excess, justifying an acreage set-aside for feed barley, but not for malting barley, due to critically short supplies. Under this situation, in order to insure an adequate supply of malting barley, the Secretary may need to invoke under Title IV of the Food Security Act of 1985, Section 105C (f)(2)(C), the "malting barley exemption", which states:

> The Secretary may provide that no producer of malting barley shall be required as a condition of eligibility for feed grain loans, purchases, and payments to comply with any acreage limitation under this paragraph if such producer has previously produced a malting variety of barley for harvest, plants barley only of an acceptable malting variety for harvest, and meets such other conditions as the Secretary may prescribe.

Mr. Chairman, distinguished Senators, this concludes my remarks, I would be happy to answer any questions.

Attachments follow:

MALTING BARLEY VARIETIES RECOMMENDED BY AMBA



Economic Contribution of the Beer Industry

UNITED STATES
(In-State & Interstate Totals)

Total Business Activity	Jobs Created	Wages Generated	State & Local Tax Revenue	Federal Excise Taxes	Federal Income Taxes
$114 Billion	2.0 Million	$30 Million	$4.7 Billion	$1.6 Billion	$6.0 Billion

IN-STATE ECONOMIC CONTRIBUTION[1]

State	Employment	State & Local Taxes	Total Business Activity
		-------- Millions of Dollars --------	
Alabama	12,471	68.6	403
Alaska	1,328	8.7	100
Arizona	13,813	64.3	492
Arkansas	5,782	23.1	193
California	132,505	507.9	7,336
Colorado	25,646	95.7	1,887
Connecticut	9,914	48.9	415
Delaware	2,682	4.3	87
Dist. of Col.	1,942	12.8	101
Florida	59,659	375.0	2,829
Georgia	30,010	187.7	1,678
Hawaii	6,232	15.7	246
Idaho	5,427	16.8	167
Illinois	51,719	204.0	2,269
Indiana	21,670	73.4	805
Iowa	18,849	44.6	484
Kansas	14,295	38.0	438
Kentucky	10,837	43.7	369
Louisiana	17,154	94.8	707
Maine	4,688	23.9	157
Maryland	18,564	79.4	836
Massachusetts	24,294	95.3	946
Michigan	42,359	174.6	2,017
Minnesota	21,777	107.2	970
Mississippi	12,063	48.5	373
Missouri	29,687	82.3	2,035
Montana	6,444	13.3	226
Nebraska	9,767	27.5	322
Nevada	7,263	39.3	309
New Hampshire	8,763	26.4	438
New Jersey	30,447	120.2	1,837
New Mexico	6,284	26.3	212
New York	72,604	396.1	4,397
North Carolina	32,181	120.1	1,395

State	Employment	State & Local Taxes	Total Business Activity
		-------- Millions of Dollars --------	
North Dakota	4,679	13.0	143
Ohio	52,166	190.0	2,157
Oklahoma	13,179	32.5	480
Oregon	16,001	32.0	633
Pennsylvania	67,938	175.8	2,956
Rhode Island	4,672	18.6	164
South Carolina	19,750	88.9	652
South Dakota	3,963	11.6	103
Tennessee	20,171	111.7	847
Texas	97,671	339.7	5,503
Utah	6,272	20.8	156
Vermont	2,589	10.8	81
Virginia	23,592	91.5	1,210
Washington	25,285	73.9	1,212
West Virginia	6,196	31.3	198
Wisconsin	52,001	134.0	2,902
Wyoming	3,094	5.6	99

Source: The Economic Contribution of the Beer Industry to the States' Economies 1984. Prepared for the Beer Institute by Steve L. Barsby & Associates, Inc.

[1] Does not include interstate contributions (eg. purchases of material outside of individual state). Interstate contributions are included in United States Totals.

American Malting Barley Association, Inc.
GLEANINGS

1987 BARLEY PRODUCTION REPORT

NOTE: The following report is based on the January 1988 USDA/ Agricultural Statistics Board annual Crop Production Summary.

Barley production for 1987 is estimated at 527 million bushels. This is 14 percent below last year's record production of 610 million bushels. Yields averaged 52.6 bushels per acre in 1987, up 3.5 percent from 1986. The production decrease resulted from a 15 to 16 percent decrease in both planted and harvested acres.

STATE	AREA HARVESTED 1986	AREA HARVESTED 1987	YIELD 1986	YIELD 1987	PRODUCTION 1985	PRODUCTION 1986	PRODUCTION 1987
	-000s ACRES-		--BU/ACRE--		-------000s BUSHELS-------		
			MIDWEST				
Minnesota	1,000	870	55.0	57.0	70,950	55,000	49,590
North Dakota	3,450	2,900	51.0	48.0	184,250	175,950	139,200
South Dakota	855	850	42.0	40.0	32,400	35,910	34,000
3 State Total	5,305	4,620	50.3	48.2	287,600	266,860	222,790
			WEST				
Colorado	350	220	60.0	66.0	21,760	21,000	14,520
Idaho	1,110	820	65.0	75.0	71,920	72,150	61,500
Montana	2,180	2,100	39.0	45.0	30,000	85,020	94,500
Oregon	365	220	57.0	70.0	19,250	20,805	15,400
Washington	900	645	50.0	55.0	56,640	45,000	35,475
Wyoming	160	148	68.0	70.0	10,560	10,880	10,360
6 State Total	5,065	4,153	50.3	55.8	210,130	254,855	231,755
Other	1,637	1,254	54.2	57.8	93,653	88,807	72,465
US TOTAL	12,007	10,027	50.8	52.6	591,383	610,522	527,010

BARLEY

STATE	AREA PLANTED			AREA HARVESTED			YIELD			PRODUCTION		
	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987
	000s Acres						BU/ACRE			000s BUSHELS		
Arizona	67	32	25	62	29	22	97.0	100.0	99.0	6,014	2,900	2,178
California	500	470	400	420	400	300	59.0	59.0	51.0	24,780	23,600	15,300
Colorado	360	390	230	340	350	220	64.0	60.0	66.0	21,760	21,000	14,520
Delaware	63	55	55	57	50	52	58.0	61.0	62.0	3,306	3,050	3,224
Idaho	1,280	1,140	840	1,240	1,110	820	58.0	65.0	75.0	71,920	72,150	61,500
Kansas	240	350	140	220	290	120	44.0	36.0	40.0	9,680	10,440	4,800
Kentucky	32	25	15	26	17	11	35.0	31.0	67.0	910	527	737
Maryland	103	90	100	96	82	89	57.0	60.0	67.0	5,472	4,920	5,963
Michigan	39	60	55	38	55	50	68.0	59.0	55.0	2,584	3,245	2,750
Minnesota	1,200	1,200	1,200	1,075	1,000	870	66.0	55.0	57.0	70,950	55,000	49,590
Montana	2,350	2,400	2,300	1,500	2,180	2,100	20.0	39.0	45.0	30,000	85,020	94,500
Nebraska	145	150	90	120	135	75	32.0	40.0	36.0	3,840	5,400	2,700
Nevada	40	36	36	37	33	33	80.0	90.0	90.0	2,960	2,970	2,970
New Jersey	21	29	20	17	20	15	63.0	62.0	60.0	1,071	1,240	900
New Mexico	18	22	15	15	16	11	70.0	65.0	70.0	1,050	1,040	770
North Carolina	78	53	46	66	45	40	40.0	36.0	62.0	2,640	1,620	2,480
North Dakota	3,500	3,600	3,000	3,350	3,450	2,900	55.0	51.0	48.0	184,250	175,950	139,200
Oklahoma	70	50	35	50	35	25	38.0	36.0	30.0	1,900	1,260	750
Oregon	360	375	250	350	365	220	55.0	57.0	70.0	19,250	20,805	15,400
Pennsylvania	75	70	65	70	65	60	62.0	60.0	57.0	4,340	3,900	3,420
South Carolina	36	24	15	32	21	13	38.0	28.0	49.0	1,216	588	637
South Dakota	780	930	870	720	855	850	45.0	42.0	40.0	32,400	35,910	34,000
Texas	70	70	65	50	35	30	45.0	50.0	40.0	2,250	1,750	1,200
Utah	172	165	152	159	152	142	74.0	76.0	83.0	11,766	11,552	11,786
Virginia	130	90	100	100	72	78	48.0	55.0	66.0	4,800	3,960	5,148
Washington	1,200	920	660	1,180	900	645	48.0	50.0	55.0	56,640	45,000	35,475
Wisconsin	57	95	110	53	85	88	58.0	57.0	54.0	3,074	4,845	4,752
Wyoming	170	168	157	160	160	148	66.0	68.0	70.0	10,560	10,880	10,360
Total US	13,156	13,059	11,046	11,603	12,007	10,027	51.0	50.8	52.6	591,383	610,522	527,010

SOURCE: Annual Crop Summary, January 1988. Agricultural Statistics Board/NASS/USDA.

American Malting Barley Association, Inc.
GLEANINGS

BARLEY STOCKS
(1,000 Bushels)

	JUNE 1, 1986	JUNE 1, 1987	PERCENTAGE CHANGE
ON-FARM			
MINNESOTA	49,665	50,000	+ 0.7
NORTH DAKOTA	93,968	83,000	-11.7
SOUTH DAKOTA	17,496	20,000	+14.3
SUBTOTAL	161,129	153,000	- 5.0
IDAHO	7,911	9,500	+20.1
MONTANA	12,900	14,000	+ 8.5
WASHINGTON	5,664	3,000	-47.0
SUBTOTAL	26,475	26,500	+ 0.1
OTHER	11,684	14,445	+23.6
TOTAL	199,288	193,945	- 2.7
OFF-FARM			
MINNESOTA	26,187	30,239	+15.5
NORTH DAKOTA	24,750	33,500	+35.4
SOUTH DAKOTA	2,908	4,703	+61.7
SUBTOTAL	53,845	68,442	+27.1
IDAHO	12,052	12,099	+ 0.4
MONTANA	6,200	5,200	-16.1
WASHINGTON	20,791	21,485	+ 3.3
SUBTOTAL	39,043	38,784	- 0.7
OTHER	32,666	35,270	+ 8.0
TOTAL	125,554	142,496	+13.5
ALL POSITIONS			
MINNESOTA	75,852	80,239	+ 5.8
NORTH DAKOTA	118,718	116,500	- 1.9
SOUTH DAKOTA	20,404	24,703	+21.1
SUBTOTAL	214,974	221,442	+ 3.0
IDAHO	19,963	21,599	+ 8.2
MONTANA	19,100	19,200	+ 0.5
WASHINGTON	26,455	24,485	- 7.4
SUBTOTAL	65,518	65,284	- 0.4
OTHER	44,350	49,715	+12.1
TOTAL	324,842	336,441	+ 3.6

Source USDA/Agricultural Statistics Board, June 30, 1987

BARLEY (OLD CROP) - STOCKS BY POSITIONS, BY STATES, JUNE 1, 1986-87

STATE	ON FARMS	OFF FARMS 1/	TOTAL ALL POSITIONS	ON FARMS	OFF FARMS 1/	TOTAL ALL POSITIONS
	1986			1987		
	1,000 BUSHELS					
ALA						
ARIZ	12	102	114	55	162	217
ARK						
CALIF	743	963	1,706	440	1,862	2,302
COLO	3,046	*	*	2,800	4,100	6,900
DEL	*	77	*	*	263	*
FLA						
GA		29	29		12	12
IDAHO	7,911	12,052	19,963	9,500	12,099	21,599
ILL		*	*		*	*
IND						
IOWA		*	*		*	*
KANS	968	405	1,373	1,500	1,646	3,146
KY	*	51	*	*	59	*
LA					*	*
MD	*	189	*	*	360	*
MICH	*	*	*	*	*	*
MINN	49,665	26,187	75,852	50,000	30,239	80,239
MISS						
MO		*	*		*	*
MONT	12,900	6,200	19,100	14,000	5,200	19,200
NEBR	*	370	*	*	181	*
NEV	*	*	*	*	*	*
N ENG		*	*		*	*
N J	*	*	*	*	*	*
N MEX	*	*	*	*	*	*
N Y		291	291		*	*
N C	*	101	*	*	*	*
N DAK	93,968	24,750	118,718	83,000	33,500	116,500
OHIO		*	*		*	*
OKLA	*	167	*	*	194	*
OREG	1,540	1,691	3,231	1,600	2,650	4,250
PA	*	175	*	*	130	*
S C	*	6	*	*	*	*
S DAK	17,496	2,908	20,404	20,000	4,703	24,703
TENN		*	*		*	*
TEX	*	264	*	*	212	*
UTAH	941	1,120	2,061	1,300	1,320	2,620
VA	*	215	*	*	140	*
WASH	5,664	20,791	26,455	3,000	21,485	24,485
W VA		*	*		*	*
WIS	*	19,000	*	*	19,350	*
WYO	1,162	*	*	750	*	*
UNALL*	3,272	7,450	35,545	6,000	2,629	30,268
U S	199,288	125,554	324,842	193,945	142,496	336,441

* INCLUDED IN UNALLOCATED "OFF FARMS" TO AVOID DISCLOSURE OF INDIVIDUAL OPERATIONS; IN UNALLOCATED "ON FARMS", MINOR STATES NOT PUBLISHED SEPARATELY ARE INCLUDED.

1/ INCLUDES STOCKS AT MILLS, ELEVATORS, WAREHOUSES, TERMINALS, AND PROCESSORS.

Senator CONRAD. All right. Thank you very much. We appreciate that testimony. We will go to the other witnesses and then come back to the panel for questions.

Next, we are going to hear from Mr. Louis Arnold, the vice president of the National Barley Growers Association. Welcome. Good to have you here. Proceed with your testimony, and then we will have time for questions of the panel.

STATEMENT OF LOUIS D. ARNOLD, VICE PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, ESMOND, ND

Mr. ARNOLD. Good morning, Senator. Glad to be here.

I come from central North Dakota and I am from Esmond. The other day when I left Esmond, I noted that I am going to harvest zero acres. I will not have a kernel of crop this year.

Senator CONRAD. What did you plant? How many acres?

Mr. ARNOLD. I planted about 1,400 acres of barley and wheat, and the only reason I planted them was for the deficiency payment and crop insurance. There are several reasons why I did not want to plant because it was too dry, but I had to.

Anyway, to get into my testimony, barley is an important cash crop to farmers located in the Midwest and Western States of the United States. Barley is often grown in a followup rotation with wheat. Typically, about two-thirds of the barley used domestically is utilized as animal feed, while one-third is used in the production of malt beverages. Nearly all the barley exported is of feed quality.

Barley acreage, production, and use have increased dramatically since the beginning of the decade. Area harvested has grown from 7.3 million acres nationally in the 1980–81 marketing year to 12 million acres in 1986–87. During that same period, production increased 70 percent from 360 to 611 million bushels, while total use has grown 42 percent to 607 million bushels. And I may add this includes exports. Although demand for barley did improve during this time period, it grew at a slower pace than production, leading to a 2½-fold increase in year-end stock inventories at 336 million bushels in 1986–87. We had 137.3 million bushels in 1980–81 ending stocks.

Senator CONRAD. Let me just stop you there and ask you: You have just told us on your farm you are anticipating that you will not be harvesting nothing.

Mr. ARNOLD. Right.

Senator CONRAD. I was in fields this weekend. There will be no harvest; I mean nothing. There will not be a bushel harvested on land we looked at.

Do you have some judgment as to what we can anticipate in our State in terms of the damage already done to the barley crop?

Mr. ARNOLD. Yes, we do. We usually harvest in the three-State area—Minnesota, North Dakota and South Dakota—about 220 million bushels. And we are going to be down, we estimate, at around 130 to 150. Now, that was as of last week.

Senator CONRAD. Based on what you have seen, obviously it is going to be less than what was estimated a week ago?

Mr. ARNOLD. I still think we are going to come in with around a 125 million-bushel crop. There is going to be barley in the valley. Now, what quality of barley it will be, I do not know.

I would like to stress the point that I was going to get into later in my testimony that I think it is really early to touch the panic button as far as barley is concerned. We have approximately a 200-million-bushel carryover ending stocks, and it is sufficient until March or April of next year. And you know as well as I do that if we get rains this fall and we have good rains in March and April, we will produce the biggest barley crop you ever seen. The reason I say that is that with the land—on my own farm, I operate about 2,500 acres of tillable land. It will all be prime land next year. And if the prices are right, I will not be in the program. I will seed the whole thing to barley and wheat, and we will produce crops——

Senator CONRAD. Like there is no tomorrow.

Mr. ARNOLD. And I would like to stress that point because I think it is—I do not like this idea of pressing the panic button. Our barley supply situation has gotten to the point where it is manageable now. Through the EEP Program and the P.L. 480 program and the TEA Program, it has been one of the best games in town, as far as I am concerned. We have not exported this much barley in 6 years as we did in the last 2 years. And it is a thing where I think and the National Barley Growers feel that rather than getting our price from deficiency payments and from the Government, if we can manage the supplies from 200-million-bushel ending stocks—from 100 to 200 million, we will get our price from the marketplace.

And that has been our problem. We have had too much of a supply on hand. I think the 1985 farm program has worked to that extent. To carry that a little further, I would like to say that I think the program should be continued as it is with some fine-tuning. We have some problems within the program as farmers. We feel that the yield situation on the program is unjust to some farmers. And we also feel that the bases are unjust to some farmers. But these are things that can be fine-tuned to fit the farmers out there.

To carry on a little further, I guess as far as the EEP is concerned, we also feel that if it is let up on at this time, that these markets that have been developed—and if you discontinue EEP at this time, you are going to lose these markets again. Let's try and keep them.

As we look toward the 1989-90 crop-year, we anticipate production near the 1987-88 crop, the level of about 500 to 600 million bushels, assuming a 20 percent set-aside and normal growing conditions throughout the barley-producing region. This size crop is adequate to fulfill current domestic and foreign market demand while maintaining a 4-month carryover supply. A set-aside could be reduced below the current 20 percent level by discretionary action of the Secretary of Agriculture if additional stocks were deemed necessary.

Now, you must remember that if you reduce the set-aside by 10 percent, you automatically bring in another 50 million bushels. Because we are growing about 10 million acres of barley right now, and if you add another million acres, you are going to get approxi-

mately 50 million bushels. So you could add another 100 million bushels there by just adjusting the set-aside acres.

We do not feel that malting barley should be pulled from the acreage as it is in the program now. It should be left as is.

That about summarizes my remarks, Senator.

[The prepared statement of Mr. Arnold, with attachments, follow:]

STATEMENT OF LOUIS D. ARNOLD, VICE PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, 415-38TH STREET SOUTHWEST, FARGO, NORTH DAKOTA 58103

Mr. Chairman, members of the Committee, my name is Louis D. Arnold. I am Vice President of the National Barley Growers Association and Vice Chairman of the North Dakota Barley Council. I operate a family-sized farm of 2700 acres in northcentral North Dakota where I raise barley, wheat, and sunflowers. I appreciate this opportunity to discuss the barley supply and use situation.

Barley is an important cash crop to farmers located in the Midwest and Western states of the United States. Barley is often grown in a follow-up rotation with wheat. Typically, about two-thirds of the barley used domestically is utilized as animal feed, while one-third is used in the production of malt beverages. Nearly all the barley exported is of feed quality.

Barley acreage, production, and use have increased dramatically since the beginning of the decade. Area harvested has grown from 7.3 million acres nationally in the 1980/81 marketing year to 12 million acres in 1986/87. During that same time period, production increased 70 percent from 360 to 611 million bushels, while total use has grown 42 percent to 607 million bushels. Although demand for barley did improve during this time period it grew at a slower pace than production, leading to a $2\frac{1}{2}$ fold increase in year-end stock inventories (336 million bushels in 1986/87).

Cross-compliance on barley acreage came into effect during the 1987/88 marketing year and was the major factor in the reduction of acreage to 10 million harvested acres. Production declined to 527 million bushels, while total use was 580 million bushels. The Export Enhancement Program, which was utilized aggressively and judiciously by USDA, played a major role in the recovery of the barley producers by utilizing existing stocks to create new demand for U.S. barley in the world. The net result was a decline in year-end stocks for the first time in five years, which we in the barley industry view as being a progressive sign.

Unfortunately for those of us located in the Midwest, we are in the midst of a major drought. We anticipate barley production at this juncture will be in the 150 million bushel range for the Dakotas and Minnesota as compared to over 220 million bushels last year. The major growing states in the western part of the United States are not being affected by the drought with the lone exception being Montana where local experts expect to see a 50 percent reduction in total production. We currently estimate the 1988 U.S. barley crop to be in the neighborhood of 400 million bushels, or 30 percent below last year's level.

A logical question at this point is "Will the reduction in production output adversely affect end-users if we continue to supply domestic use plus maintain the current level of exports through EEP?" We do not believe so for a variety of reasons. First, let's consider the domestic malting and brewing industry. Without getting into the technical considerations, suffice it to say most barley used in malting and brewing comes from the Red River Valley of the Midwest and irrigated areas in the western United States. Production in the Red River Valley will certainly be reduced this year but we feel sufficient stocks will be available to meet industries' needs. The irrigated areas in the western U.S. are not impacted to any large extent by the drought. So the needs of the malting and brewing industry can and will be met.

The second consideration is the domestic feeders. Cattle feeders in the Pacific Northwest and Pacific Southwest areas of the country are the major users of feed barley. Little of the barley produced in the Midwest enters these markets due to high transportation costs. Since barley production in western states appears to be on par with previous year's output, we foresee little impact on the domestic feed market.

The third and final consideration concerns the impact on exports to foreign customers. As mentioned previously, EEP is a major boon to exports of U.S. barley in light of unfair competition by our overseas competitors, namely the European Community. It would certainly be a shame to relinquish the overseas markets we have worked so hard to develop and capture because of a crop shortfall in the U.S. Current levels of government held or controlled stocks can be utilized to bridge the gap in the short term.

USDA's initial supply and demand report estimated total barley use of 540 million bushels for the current 1988/89 marketing year. Given the impending crop shortfall, alternative sources of supply are required to meet that level of demand. Currently, nearly 200 million bushels of barley are under loan or reserve, nearly three-fourths of which is in the Midwest drought-stricken area. Utilization of these stocks would not only retain our presence in foreign markets but also help reduce burdensome stock carryover levels. Maintenance of the domestic and export market through the infusion of loan and reserve barley would reduce our ending stocks from over six months supply to just below four months supply, in other words, bringing stocks back to a manageable level.

As we look towards the 1989/90 crop year we anticipate production near the 1987/88 crop year level of 527 million bushels, assuming a 20 percent set-aside and normal growing conditions throughout the barley producing region. This size crop is adequate to fulfill current domestic and foreign market demand while maintaining a 4-month carryover supply. Set-aside could be reduced below the current 20 percent level by discretionary action of the Secretary of Agriculture if additional stocks were deemed necessary. A reduction in the set-aside from 20 to 10 percent would add over 50 million bushels to available stocks in a normal year.

Barley is utilized primarily as a feed stock in the domestic and export markets and, as such, is viewed by producers as a feed grain.

Included are tables indicating the statistics mentioned, pin-pointing primarily production and government-controlled barley stocks in the ten major barley producing states. The 1988 production statistics are based on the most current estimates of crop observers.

Tables follow:

U.S. BARLEY ACREAGE, PRODUCTION, USE, AND ENDING STOCKS, 1980/81 - 1989/90

Marketing Year	Harvested Area	Production	Total Use	Ending Stocks
	000,000 acres	000,000 bushels	000,000 bushels	000,000 bushels
1980/81	7.3	361	426	137
1981/82	9.0	474	472	148
1982/83	9.0	516	458	217
1983/84	9.7	509	544	189
1984/85	11.2	599	551	247
1985/86	11.6	591	522	325
1986/87	12.0	611	607	336
1987/88	10.0	527	580	298
1988/89		400[a]	540	173
1989/90		527	540	175

[a] NBGA estimate based on information obtained from representatives in major barley-producing states.

BARLEY UNDER LOAN AND RESERVE (AS OF JUNE 8, 1988)[a]

Region/ State	Loan	Reserve	Total
	- - - - - - - million bushels - - - - - - -		
Midwestern States			
North Dakota	37.1	54.3	91.4
Minnesota	16.2	31.7	47.9
South Dakota	9.3	6.3	15.6
Midwestern Total	62.6	92.3	154.9
Western States			
Montana	12.7	6.1	18.8
Idaho	5.7	4.9	10.6
Washington	.8	3.6	4.4
Oregon	.3	.5	.8
California	.3	.1	.4
Colorado	1.0	1.1	2.1
Wyoming	.7	.5	1.2
Western Total	21.5	16.8	38.3
U.S. Total	84.3	108.8	193.1

[a] Numbers may not add due to rounding

BARLEY PRODUCTION BY MAJOR PRODUCING STATES AND REGIONS, ESTIMATED
1988, 1987 AND FIVE YEAR AVERAGE

Region/ State	1988[a]	1987	Five-Year Average 1983-1987
	million bushels		
Midwestern States			
North Dakota	72.0	139.2	153.6
Minnesota	60.0	49.6	56.2
South Dakota	17.5	34.0	31.2
Midwestern Total	149.5	222.8	241.0
Western States			
Montana	45.0	94.5	69.3
Idaho	65.0	61.5	72.2
Washington	32.0	35.5	51.0
Oregon	16.0	15.4	17.9
California	21.0	15.3	24.4
Colorado	14.0	14.5	18.8
Wyoming	11.0	10.4	10.4
Western Total	204.0	247.1	264.0
Ten State Total	353.5	469.9	505.0
Remaining States	52.6	57.1	62.4
U.S. Total	406.1	527.0	567.4

[a] NBGA estimate

Senator CONRAD. All right. Thank you very much, Mr. Arnold, for your input. You know, we have a situation in which we have to get help for those parts of the country that are being devastated. You know as well as anyone the kind of effect we could have, not only on farmers but Main Street, with a drought of this magnitude. Have you ever seen anything like this in your life?

Mr. ARNOLD. No. And my mother went through the 1930's, and she said it was not this bad in the 1930's.

Senator CONRAD. Not as bad as what we see now.

Mr. ARNOLD. No.

Senator CONRAD. I have not been in Esmond or the Esmond area in the last month. I have been close. Devils Lake had some rain.

Mr. ARNOLD. Devils Lake is heaven compared to Esmond.

Senator CONRAD. Yes. And my understanding is that Esmond did not get rain—we had a rain, a very good rain in Devils Lake about 3 weeks ago, 4 weeks ago. But Esmond did not get any of that.

Mr. ARNOLD. I live 6 miles north of Esmond, and as of June, right now, since April 1, 1987, I have had 3 inches of rain on my farm and .30 of that came this spring. So I am next to Cairo, Egypt, as far as the drought is concerned. They get about 1.30 inches of rain over there a year.

Senator CONRAD. You get 3 inches of rain. That is just staggering.

Mr. ARNOLD. But like I stated, I think we still have adequate supplies and will have for barley, as far as right now. I can see that if we go into the fall with no moisture as we are now, why, then, we are going to probably have a problem.

Senator CONRAD. Well, the weather people are telling us that droughts tend to hang on. Of course, we have no way of knowing. I do not think they really know—that when a drought pattern sets in it tends to persist. And I suppose you can review history, and see that the two major droughts that I know about—the late 1880's, and the 1930's—were both drought patterns that persisted for multiple year periods. We pray that does not happen to us now. I think we have to be thinking about our options if we would face that kind of situation.

You were here and heard the oats people. I would be very interested in your reaction to some of the recommendations we received from the oats people on separating the barley/oats base; eliminating the ARP for oats; increasing the target price; and harvesting oats on set-aside. Do you have a reaction to those sets of recommendations for oats?

Mr. ARNOLD. I do not have anything to say on the set-aside because I do not know what the situation is out there on set-aside acres in other States. I know our set-aside acres in North Dakota—and you know it as well as I do—there is no oats there.

Senator CONRAD. There is nothing to talk about.

Mr. ARNOLD. And what is there, the livestock producers are going to certainly use.

But getting back to this thing on acres as far as in the program, that is one of the reasons the oats has not been grown in our States; it is because it has been tied with the barley base. And if it would be separated out, they would get some acres of oats. They would get plenty of acres, I think.

Senator CONRAD. What would you do? Obviously, if it was competitive on a dollar basis, would you be growing some oats?

Mr. ARNOLD. Yes, I would.

Senator CONRAD. You have grown oats in the past?

Mr. ARNOLD. Right.

Senator CONRAD. All right.

Mr. ARNOLD. There are areas right there on parts of my farm that oats do not do well, but on other parts it does very well.

Senator CONRAD. All right. Any other comments that you want to offer at this time on what we heard vis-a-vis the oats recommendations? You would not be adverse to seeing a separate base for oats, I take it?

Mr. ARNOLD. I would not.

Senator CONRAD. OK. Thank you very much.

Senator CONRAD. Next, we will hear from Ken Stephens, the director of trade servicing of the U.S. Feed Grains Council. Welcome, Ken.

STATEMENT OF KEN STEPHENS, DIRECTOR OF TRADE SERVICING, U.S. FEED GRAINS COUNCIL, ACCOMPANIED BY DAN FETHERSTON, MANAGER OF TRADE SERVICING, WASHINGTON, DC

Mr. STEPHENS. Thank you, Mr. Chairman.

I am Ken Stephens. I have with me Dan Fetherston of our organization. We are both representing the U.S. Feed Grains Council.

Senator CONRAD. Welcome to you as well, Dan.

Mr. STEPHENS. I would simply mention that the Feed Grains Council is a private, non-profit organization that is made up uniquely of both producer members and agribusiness firms. In addition to the corn and grain sorghum producers, the producer members of the Feed Grains Council include the National Barley Growers Association, the Montana Wheat and Barley Committee, the North Dakota Barley Council, and the Washington State Barley Commission. Agribusiness members—we have about 130 of them—include grain companies, equipment manufacturers, seedsmen, manufacturers of agrichemicals—in fact, whatever firms that are dependent on the prosperity of farmers to stay in business.

The Council appreciates the invitation to discuss with you U.S. feed grain exports, the export competitiveness and the U.S. Government programs to assist farm exports. The Council also wishes to congratulate the Congress on their foresight in providing the Export Enhancement Program and the Targeted Export Assistance Program. The majority of my statement will deal with the way in which these two programs have benefited barley producers and the U.S. taxpayer by increasing U.S. exports of barley and barley malt.

I will try to restrict and summarize as we go along. So please bear with me.

THE BARLEY EXPORT PROGRAM

The barley supply and demand situation, particularly as it deals with exports, has been gone into by other witnesses here. They have made it very clear that it is a see-saw arrangement that is up one year; and it sometimes seems that buyers never seem to remember that we grew barley in the United States except when the

rest of the world was extremely short of it. Several things, I think, explain this problem.

First, until 3 years ago, there was very little market development work done for U.S. barley. Second, the barley boards of the exporting nations usually had more pricing latitude than the private U.S. sellers. Last and the most important factor is that about two-thirds of the major barley markets of the world—the Middle East, North Africa and Eastern Europe—are dominated by the European Community, or the EC. The EC, as you well know, was and is an aggressive seller and user of export subsidies.

I have included a table in my prepared statement that shows the relationship of the export subsidy level of exports by the EC. The annual barley exports in the early 1980's was 3.9 million tons, and in the current year it is 7 million as a preliminary figure, maybe slightly higher. During this same period, the EC subsidy on barley exports rose from about $40 a ton to $130 a ton in mid-April of this year.

Since the United States refrained from subsidizing exports, it simply was impossible to compete with the EC, and in 1985–86 U.S. barley exports sank to only 22 million bushels, bringing the 10-year average down to 62 million bushels, as you know. But with the advent of the EEP, we rose to a record—a 30-year record at least—of 137 million bushels, about six times the 22 million bushels exported the previous year. Just about equal to the barley carryout when this stock buildup began.

During the current year, we estimate at about 115 million bushels. We do not have the figures yet in the way of exports. This will be the first time in 30 years, at least, that we have had two good barley export years in a row.

I think more important than these records, however—and I think this is a very important point in evaluating the EEP Program—these sales were made to countries which represented new markets for the United States or to countries which had not bought from the United States for a very long time. In all cases, the quantities sold in these markets were far greater than would have been sold if we had not been able to meet the subsidized prices of the EC.

In that connection, there is a table also in the prepared testimony that shows that we first got a barley export program in 1985–86, but only for Saudi Arabia. It came late in the year, and we picked up 6 percent of the market, which compared to a fraction of 1 percent in the previous years. In 1986–87, EEP was made available in 7 of these markets, and in all 7 the United States share rose from 0 to levels ranging from 21 to 100 percent. And in the current year, EEP was made available to all 10 of these markets, and we obtained a significant share in 8 of them. And in most cases, the share was higher than the year before.

Now, I would say as desirable as these results are, we can ask if the goals of the EEP were met in this case? As we understand it, EEP has two major goals: one, to move the maximum volume of U.S. commodities onto the world market; and second, by meeting competition head on, bringing the world's agricultural exporters and importers to the bargaining table for a speedily negotiated restructuring of global trading rules.

Certainly, the first goal has been clearly met and the second goal has been materially advanced. And we give a tremendous amount of credit to the EEP for making this possible.

THE BARLEY MALT SITUATION

I would be remiss if I did not mention the barley malt situation in connection with this. Barley malt also offers the United States an outstanding export opportunity. Malt for brewing, as has been said, is an important value-added product which benefits U.S. labor and private industry. It is also very important to the barley grower, since each ton of malt exported means purchase of about 1.36 tons of barley. Despite these facts, we have not had a malt export promotion program previously conducted by the U.S. Government, and only a few private companies have aggressively sought to export malt.

The Council recognized the need for changing this, and they decided to pick a key area, which was Latin America. There we should logically enjoy a freight advantage, and the size of the market is 570,000 metric tons of malt; most of it was coming from the EC. Moreover, beer consumption in Latin America, unlike the rest of the world generally, is increasing.

The problem to overcome was two-fold. Europe had dominated the market by use of heavily subsidized pricing, and had done so for so long that Latin American brewers were completely unfamiliar with malts made from American two-row and six-row barleys.

We also saw the solution as two-fold. To break into that market it was decided, one, to use the Targeted Export Assistance, or TEA Program, to provide samples and run demonstrations in the Latin American breweries using two-row and six-row malt. This would show that U.S. malts could be tailored to meet the Latin specifications, and that U.S. malt would fit their operations and two, to use the EEP to meet European subsidized prices until such time as the European Community could be discouraged from its present policy.

The Council knew this was going to take time. It has taken time. We have had some successes. We feel that we are on the verge of a great deal more of them.

We have had sales as a result of the TEA Program demonstrations in Latin America. We have had sales of malt to both Honduras and Guatemala, and we have had a 15,000-ton sale to Colombia. We have some other sales pending which, if we had the EEP, we could close the deal in the next few days. They may return to Europe if we cannot do this.

We also should mention that we had a malt conference in Caracas to familiarize the people with the results of the TEA demonstrations and 25 executives from 16 Latin American breweries in 9 countries attended, and the executives of 5 U.S. firms producing malt for brewing, which is pretty close to all of the major malting firms in the United States. Then, in addition, early this fall, we are bringing a number of the brewers up to see the facilities of the U.S. maltsters here in the States.

Senator CONRAD. Will they be coming to North Dakota?

Mr. STEPHENS. They surely will. We will see them visiting the six-row and the two-row area. But I guess you have more maltsters in the six-row area than the two.

We hope that you will be able to welcome them there and show them what a good quality product you produce.

Senator CONRAD. Do you know exactly when that will be?

Mr. STEPHENS. I do not know. Do you Dan?

Mr. FETHERSTON. August 2d to 12th.

Mr. STEPHENS. August 2d to the 12th. Our member associations in those areas will be contacting the maltsters.

We have not limited this to Latin America. I should mention that we competed and had TEA demonstrations in the People's Republic of China and Turkey and Nigeria, but no EEP authorizations have been announced for the first two countries, and we have had no sales. But the EEP for Nigeria was provided, combined with the demonstration, and we sold 93,000 tons of malt.

These are figures that have to be put into perspective when we talk about these results as good. We only have preliminary malt export data for the current year, but it looks like it will be between 100 and 112,000 metric tons of U.S. malt exported. This compares with 39,000 tons exported in 1986. This is really a fantastic increase. There have been other years with larger exports than 39,000, but nowhere near 100,000.

In the last year-and-a-half, a total of nearly 160,000 metric tons of malt has been sold under the EEP alone. The total quantity, which could be sold under initiatives provided by the USDA, is 385,000 metric tons. All of this represents about 24 million bushels of malting barley.

I think more important, on a long-term basis, is the interest in U.S. malt that has been exhibited by the foreign brewers—they welcome seeing an alternative supply source—and the enthusiasm with which the Council's activities have been greeted by the U.S. malting industry. We only know in the past of one firm engaged in foreign market development. Now, at least four and possibly five U.S. maltsters have hired overseas representatives, and virtually all of the firms have made foreign sales trips during the last year.

THE U.S. FEED GRAIN COUNCIL'S ROLE

Before closing, I should mention that the barley producers sought and obtained the inclusion of barley in the EEP. Then the Council sold the EEP Program to buyers in the Middle East, North Africa and East Europe, and then brought the USDA's attention to specific sales opportunities. The Council also provided justifications for USDA's use. This is a continuing operation for both barley and malt that makes buyers aware of U.S. programs and how to participate, and also keeps USDA aware of opportunities to use the EEP to make sales.

A little earlier I mentioned EEP totals for malt. The barley totals are even more impressive. Sales total 286 million bushels, although not all of this has been exported as yet. The total possible under initiatives already announced is 350 million bushels.

I think it appropriate to point out that all of these numbers clearly indicate the outstanding job USDA and the Foreign Agri-

cultural Service is doing in implementing the EEP. They have welcomed the Council's suggestions and utilized information we have obtained to supplement that provided by the very dedicated agricultural consuls and attachés in barley markets around the world. We are most appreciative of the job they are doing.

CLOSING STATEMENT

In closing, I would like to point out that there is a continuing need for the EEP, so long as the EC continues to sell at subsidized prices. If we restrict the use of the EEP now, it will relieve pressure on the EC to discontinue their present practices. Without EEP, the United States will be able to export only a very limited quantity of barley and barley malt. We will go back to where we were. And as Mr. Arnold has pointed out, we will lose those markets where we have gotten a foothold, and we damage our reputation as a reliable supplier, something we have worked so hard to establish.

DROUGHT

We have a drought. No one can predict the effect of the drought on barley production very accurately at this point. But before we panic, we should realize that we are beginning the year with a 30-year record of carryover stocks of about 300 million bushels. The smallest barley crop in the last 30 years was 299 million bushels in 1974. And even with a crop comparable to 1974, we would have plenty of barley, a supply of at least 600 million bushels this year.

What the other witnesses have said, I would like to echo, that is, we have plenty of barley, and we should not get touted off the use of these and should not panic. And as you know, the problem will be what is ahead for us if we are beginning a drought cycle. That is another story.

Again, I want to express appreciation to the Congress for making the EEP and TEA programs possible and urge you to continue these programs as necessary tools to maintain U.S. exports. I thank you, Mr. Chairman.

[The prepared statement of Mr. Stephens follows:]

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STATEMENT OF KEN STEPHENS,
DIRECTOR OF TRADE SERVICING
U.S. FEED GRAINS COUNCIL
BEFORE THE SENATE AGRICULTURAL SUBCOMMITTEE ON AGRICULTURAL
PRODUCTION AND STABILIZATION OF PRICES
JUNE 23, 1988

STATEMENT OF KEN STEPHENS,
DIRECTOR OF TRADE SERVICING
U.S. FEED GRAINS COUNCIL
BEFORE THE SENATE AGRICULTURAL SUBCOMMITTEE ON AGRICULTURAL
PRODUCTION AND STABILIZATION OF PRICES

Mr. Chairman and distinguished members of the Subcommittee:

I am Ken Stephens and I am here today representing the U.S. Feed Grains Council. The Council is a private, non-profit association dedicated to the expansion of export markets for U.S. corn, sorghum, barley and their coproducts. It maintains international offices in 12 countries and works in more than 50 countries worldwide. The Council is supported by membership dues and producer checkoff funding and also receives matching funds through the Market Development Cooperator program of the Foreign Agricultural Service.

The members of the Council are a unique mix of producers and agribusinesses. Producer members of the Council--in addition to corn and grain sorghum producers, include the National Barley Growers Association, the Montana Wheat and Barley Committee, the North Dakota Barley Council, and the Washington Barley Commission. Agribusiness members include grain companies, equipment manufacturers, seedsmen, manufactures of agrichemicals, and other firms that depend on the prosperity of farmers to stay in business. This diverse membership is united in the belief that export growth is a requirement for long-term agricultural prosperity--and that such growth will not come unless farmers themselves are willing to invest in the stimulation of export demand.

The Council appreciates the invitation to discuss with you U.S. feed grain exports, export competitiveness and U.S. Government programs to assist farm exports. The Council also wishes to congratulate the Congress on their foresight in providing the Export Enhancement and Targeted Export Assistance Programs. The majority of my statement will deal with the way in which these two programs have benefitted U.S. barley producers and the U.S. taxpayer by increasing U.S. exports of barley and barley malt.

<u>The Barley Export Problem</u>

For many years the supply/demand situation for barley was marked by fluctuations in exports, ranging from a low of 10 or 12 mil. bu. to a high of 90 to 100 mil. bu. annually. Prior to the inauguration of the EEP, however, the highs were much less frequent than the lows, and coincided with short crops elsewhere in the world. It almost seemed that as long as

anyone else had barley for sale, foreign buyers forgot that we raised it.

Low U.S. barley export levels were due to a variety of factors.

1. Until three years ago, very little market development work was done for U.S. barley.
2. The barley boards of exporting nations usually had more pricing latitude than private U.S. sellers.

3. However, one of the most important factors is that about 2/3rds of the major barley markets of the world--the Middle East, North African and East Europe--are dominated by the European Community, or EC. The EC was and is an aggressive seller and user of export subsidies.

According to U.S. Department of Agriculture statistics, the EEC increased their annual barley exports from 3.9 million tons in the early 1980's to 7.0 million in the current year. During this same period, the EEC subsidy on barley exports rose from about $40 a ton to $130 a ton in mid-April this year.

Export Subsidy Level Sharply Increases EC Barley Exports

ITEM	1983-84	1984-85	1985-86	1986-87	1987-88 (est)
Barley Export (million tons)	3.9	7.6	7.3	5.7	7.0
Mid-April Subsidy ($/MT)	43	40	112	158	130

Since the U.S. refrained from subsidizing exports, it was impossible to compete with the EC, and in 1985-86 U.S. barley exports sank to only 22 mil. bu., bringing the 10-year average down to 62 mil. bu. At the same time, carryout climbed from a 137 mil. bu. in 1980-81 to 336 mil. bu. Taxpayers were required to pay for handling and storing 2.5 times more than in 1980.

It was at this point that the first EEP barley initiative was announced. In April 1986, 500,000 MT was authorized for Algeria. This was followed in May with 500,000 MT for Saudi Arabia. By the end of that marketing year, initiatives were announced for 7 more barley markets, all dominated by the E.C. U.S. barley exports for 1986/87 rose to 137 mil. bu.--more than 6 times the volume exported the previous year and exactly equal to barley carryout in 1980-81 when the stock build-up began.

During the current year, new barley initiatives have been announced and numerous sales made against them. As a result, barley exports in the year just ended will be about 115 mil.

bu. This will be the first time in the last 30 years at least, when barley exports have been substantial two years in a row. Moreover, the 1987 export of 137 mil. bu. is the highest in the last thirty years.

More important than these records, however, is the fact that EEP barley sales were clearly additional. They were made to countries which represented new markets for the U.S. or to countries which had not bought from the U.S. for a long time. In all cases, the quantities sold into these markets were far greater than could have been sold, if we had not been able to meet the subsidized prices of the EC.

Without EEP during the last 2 years, the barley situation today would be vastly different:

1. U.S. barley exports would only have been a fraction of the 1987 and 1988 levels, probably 25-30 mil. bu. each year;
2. Barley stocks today would be at record highs--in the neighborhood of 500 mil. bu.;
3. Farm prices for barley would have been at new lows;
4. Government costs for deficiency payments would have been substantially higher with lower barley prices;
5. Government program costs would also have been increased by the cost of taking over and storing the surplus at taxpayer expense.

As desirable as these results are, we can ask if the goals of the EEP were met in this case? As we understand it, EEP has two primary goals: (1) to move the maximum volume of U.S. commodities onto the world market and reduce the huge stock levels that we have been holding for the world at our expense; and, (2) by meeting competition head-on, bringing the world's agricultural exporters and importers to the bargaining table for a speedily negotiated restructuring of global trading rules.

In the case of barley, the first goal has clearly been met with benefits to barley growers, to U.S. taxpayers, to the U.S. balance of trade and to the overall economy.

The second goal has been materially advanced. The EEP has clearly gotten the attention of the EC and emphasized the need to eliminate export subsidies and to provide a level playing field in competing for business. The u.S. has gained substantial support from other trading nations participating in the continuing forum under GATT. The EC has been drawn to the bargaining table. Only time can tell the extent to which global trading rules are reconstructed.

Before leaving the subject of EEP results, I would like to

submit for the record, as part of my statement, the increase in the US share of barley imports in the 10 markets where EEP barley sales have been made. In 1985-86 we made our first EEP barley sale to Saudi Arabia. Since it was late in the year, we obtained only 6% of the market--but in the 2 preceding years our share was only a fraction of 1%. In the other 9 countries, the U.S. share was zero.

In 1986-87, EEP was made available in 7 of the markets. In all 7, the U.S. share rose from zero to levels ranging from 21 to 100%. In 1987-88, EEP was made available in all 10 of the markets and we obtained a significant share in 8 of them, and in most cases the share was higher than the year before.

BARLEY: Change in US Market Share of Imports of Countries Provided EEP in last 2 Years vs. the Preceding Years

(Asterisk indicates years EEP provided)

Market	Market Size (3 yrs avg. imports) (1000 MT)	US Share '83-84	'84-85	'85-86	'86-87	'87-88 (prelim)
		**********	percent	**********		
Saudi	6,875	1/	1/	*6	*29	*36
Romania	567	-0-	-0-	-0-	*37	*-0-
Bulgaria	525	-0-	22	-0-	-0-	*34
Israel	380	-0-	-0-	-0-	*21	*50
Poland	283	-0-	-0-	-0-	*25	*50
Cyprus	283	34	7	-0-	*37	*-0-
Iraq	153	35	56	-0-	-0-	*75
Algeria	148	-0-	-0-	-0-	*100	*100
Jordan	74	32	18	-0-	*24	*60
Tunisia	53	-0-	-0-	-0	-0-	*100

1/ Fraction of 1 percent

Note: Major barley markets for which no EEP for barley provided to date (listed in order of size based on most recent 3-yr. average imports): USSR, Japan, GDR, Libya, China, Iran, Taiwan, Brazil, Morocco, Kuwait and Colombia--all markets averaging annual imports of 100,000 MT or more of barley.

Source: USDA records

The Barley Malt Situation

Barley malt also offered the U.S. an outstanding export opportunity. Malt for brewing is an important value-added product with benefits to U.S. labor and private industry. It is important to the barley grower, since each ton of malt exported means purchase of about 1.36 tons of barley. Despite these facts, there has not been any malt export promotion program previously conducted by the U.S. Government. Moreover, only a few private companies have aggressively sought to export malt.

Recognizing that malt is the principal ingredient for beer and that world beer consumption in 1985 exceeded 838 million barrels, the U.S. Feed Grains Council saw an opportunity to promote malt exports. The Council decided to run a pilot program in one market area and chose Latin America since the U.S. should logically enjoy a freight advantage in that area, and since 12 key countries annually imported over 570,000 MT of malt, most of it from the EC. Moreover, unlike other beer markets, consumption in Latin America is increasing.

The problem to overcome was two-fold. Europe dominated the market by use of heavily subsidized pricing, and had done so for so long that Latin American brewers were unfamiliar with malts made from American 2-row and 6-row barleys.

The Council felt that the solution was also two-fold. To break into that market it was decided, (1) to use the Targeted Export Assistance (TEA) Program to run demonstrations in Latin American breweries using 2-row and 6-row malt to show that U.S. malts could be tailored to meet the Latin specifications; and (2) to use the EEP to meet European subsidized prices until such time as the European Community could be discouraged from its present policy.

The Council recognized that the Program would require time to bear fruit and this has proven correct. TEA demonstrations in Honduras and Guatemala revealed the high quality of U.S. malt. An EEP initiative for 5 Latin American countries resulted in sales to both Honduras and Guatemala. TEA demonstrations are completed or are underway in 5 Latin markets and a 15,000-ton sale was also made to Colombia. A second sale of 65,000 MT to

Colombia is presently dependent upon announcement of a second EEP initiative for that country. However, time is of the essence, because the Colombian brewery plans to buy a 6-month supply in the very near future. Unless a second EEP allocation can be announced soon, the buyer will return to his European supplier.

Unfortunately, political relations and U.S. requirements for assurances from buyers that they will purchase specific quantities from non-EC malt exporters have prevented some TEA

demonstrations being implemented. Neither can EEP initiatives be announced until these problems are worked out, and U.S. maltsters can not meet EC prices without EEP authorization.

Under the TEA Program the Council held a Malt Conference in Caracas which was attended by 25 executives from 16 Latin breweries in 9 countries and by executives of 5 U.S. firms producing malt for brewing. The Conference was used to publicize the successful U.S. malt demonstrations run in Latin American breweries. In addition, the Council is arranging a visit to U.S. malting facilities by brewers from the major Latin American markets. They will be in the U.S. early this Fall.

The Council's malt program has not been limited to Latin America. Successful TEA demonstrations have been completed in the People's Republic of China, in Turkey and in Nigeria. No EEP authorizations have been announced for the first two countries, and no sales of malt or malting barley have been made there. An EEP for Nigeria was provided and resulted in sales of more than 93,000 MT of malt.

The results of the TEA brewing demonstrations and EEP initiatives for malt are quite apparent. Only preliminary export data is available for 1987, but it appears that U.S. malt exports were between 100,000 and 111,000 MT. This compares with 39,021 tons of malt exported by the U.S. in 1986.

In the last year and a half, a total of nearly 160,000 MT of malt has been sold under the EEP alone. The total quantity which could be sold under EEP initiatives already announced is 385,000 MT. This represents about 24 million bushels of malting barley.

More important on a long-term basis is the interest in U.S. malt exhibited by foreign brewers, and the enthusiasm with which the Council's activities have been greeted by the U.S. malting industry. Although in the past only one firm was engaged in foreign market development, several U.S. maltsters now have hired overseas representatives, and virtually all firms have made foreign sales trips during the last year.

The U.S. Feed Grain Council's Role

Before closing, I should say something about the U.S. Feed Grains Council's role. The barley producers sought and obtained inclusion of barley in the EEP. However, the Council sold the EEP program to buyers in the Middle East, North Africa and East Europe and then brought USDA's attention to the specific sales opportunities. The Council also provided justifications along with their requests--data and market information which the U.S Department of Agriculture could use to obtain approval in consultations with other U.S. Government

Departments. This is a continuing operation for both barley and malt that makes buyers aware of U.S. programs and how to participate, and also keeps USDA aware of opportunities to use programs to make sales. The Council also has arranged and conducted the TEA activities for barley and malt.

A little earlier I mentioned EEP totals for malt. The barley totals are even more impressive. Sales total 286 mil. bu., although not all of this has been exported as yet. The total possible under initiatives already announced is 350 mil. bu.

All of these numbers clearly indicate the outstanding job USDA and the Foreign Agricultural Service is doing in implementing the EEP. They have welcomed the suggestions the Council has made and utilized information we have obtained to supplement that provided by the dedicated agricultural consuls and attaches in barley markets around the world. We are most appreciative of the job they are doing.

CLOSING STATEMENT

In closing, I would like to point out that there is a continuing need for the EEP, so long as the EC continues to sell at subsidized prices. If we restrict the use of EEP, it will relieve pressure on the EC to discontinue ruinous subsidization policies. Without EEP, the U.S. will be able to export only very limited quantities of barley and malt and we will lose those markets where we have gained a foothold during the last year.

No one can predict the effect of the drought on barley production. However, before we panic we should recognize that we are beginning this year with a 30-year record of carryover stocks of about 300 mil. bu. The smallest barley crop in the last 30 years was 299 mil. bu. in 1974, when less than 8 million acres were harvested. Even with a crop comparable to 1974, we would have a supply of at least 600 mil. bu. this year.

I again want to express appreciation to the Congress for making the EEP and TEA Programs possible and urge you to continue these programs as necessary tools to maintain U.S. exports.

Thank you

Senator CONRAD. We appreciate all of your testimony very much.

I think the message is loud and clear. Obviously, we are going to have some debate on this question because there are those who are already questioning continued use of EEP, given the growing drought conditions we are seeing across much of the country. The message that I hear you giving, and one that we need to carry to our colleagues, is that if we do not maintain the pressure on the EC the lesson they will take from all of this is that they can just continue doing what they have been doing, buying markets, and capturing market share—that it will be very difficult for us to recapture at a later time. That given the facts as we know them today, continuation of EEP is certainly, for those commodities that are still in substantial surplus, something we have to very carefully calculate.

We have to pay attention to the most recent history that we have faced in terms of our friends in Europe, persuading them to engage in trade practices that make greater sense than what we have been doing.

I think I would be remiss if I did not indicate to you that there are many of us who believe that our overall policy in the last several years may have been mistaken in the sense that we have pursued a policy in the macroeconomic arena of an over-valued dollar, which required us to use an EEP in order to be competitive in the world market. The people who have paid the price for that in large measure are the farmers.

Clearly, the Federal Government has moved to fill that gap with deficiency payments and the other parts of the farm program. Many of us believe the basic underlying problem is the overall economic policy we have pursued in the country, massive deficits which have resulted in real interest rates that are much higher than historical levels, which resulted in a dollar which skyrocketed in value, forcing us out of export markets, and in turn forcing us to initiate a policy of EEP in order to be competitive.

How much better off we would have all been if we would have been in a position of having a fiscal and monetary policy in this country that would have allowed us to be competitive without having to engage in an EEP. But given the fiscal and monetary policy we have had, we have in the agriculture sector had no alternative—absolutely no alternative—but to go to an EEP. And, again, the farm sector, those of us that are involved in commodity export, take a bad rap on this matter.

And I think we have an obligation to tell our story in those terms, too. Look, it was not our idea. It was not our idea to have massive Federal Government deficits. It was not our idea to run up the value of the dollar and force us out of export markets and force us to get a substantial part of our income from the Federal Government and to engage in the EEP. It was not our idea. We have had to live with the results. The only way we could compete was to have an aggressive EEP.

We try to make that argument to our colleagues so that they understand that we have not come running for a handout. We have come talking about survival, a position that we were placed in by a policy of Federal budget deficits, trade deficits that have no end in sight, unfortunately.

Mr. STEPHENS. Mr. Chairman, I think it would be appropriate to comment also that if we had not had the EEP over the last few years, our exports would have been down around 25 or 30 million bushels, and our stocks would have been up perhaps 500, 550 million bushels. The prices would have been a lot lower, so deficiency payments would have been higher.

Senator CONRAD. Been even higher. Exactly right.

Mr. STEPHENS. And the stocks would have had to have been stored and carried by the Government.

Senator CONRAD. We would have had storage costs on it in addition to the increased deficiency. That is exactly right. And I want to salute all of you for making the case you have made here today. You have made it intelligently and persuasively, and that helps those of us who represent the parts of the country that are the producing areas.

Any further comment?

Mr. DAVIS. Mr. Chairman, I would just like to reiterate again. Ken was talking about the potential market in South America. It is a potentially large market. We finally got our foot in the door, and what our industry is concerned about is not having the malting barley to export this year. The domestic industry must be served first because you have to take care of your long-term customer.

Senator CONRAD. Absolutely.

Mr. DAVIS. And we are concerned that because of the drought condition and because malting barley supply is limited by variety and supply, we might not have enough malting barley. We are not advocating right now for any change in the set-aside for next year, but we think very serious consideration might have to be given to the malting barley exemption next year. Because without a malting barley supply, there will be no exports.

Senator CONRAD. And that would be a tragedy. That would undermine what we have sweat blood to get; namely, pressure on the EC, that is the bottom line. Really what we are talking about here is the pressure on them so that we can get them ultimately to back off these incredible subsidy levels that they have been pursuing.

Well, again, I want to thank all the members of this panel.

Mr. ARNOLD. Could I say something concerning the drought?

Senator CONRAD. You bet.

Mr. ARNOLD. I have been hot-footing it around the Capitol, and I would like to say something about these deficiency payments that are coming back to the farmers. There is a lot of talk about them, and the point I would like to make is that the deficiency payment that we would have gotten if there had been a large crop or a normal crop would have been close to, in barley's case, the $1.07 a bushel. They projected it at 76 cents a bushel, and that is what they are talking that the deficiency payment should be guaranteed at. And I do not feel that way. I feel that in the drought-stricken areas that the farmer should get the 100 percent of his deficiency. Because the Government is going to save more than that due to—that we do not have a crop. They are not going to have to make loans on this crop; they are not going to have to pay elevators in and out charges.

The benefits from it will be that our communities will have more dollars coming in. And just to make a long story short, on my farm

the difference between 76 cents and $1.07 on barley is about $14 an acre. So it is quite a difference in the amount of money that will be coming back on this deficiency thing.

Senator CONRAD. Let me just pursue this a minute. As you know, we are knee deep in this battle right now. There are those of us who feel very strongly that, number one, we need a guaranteed level of deficiency. It is a perverse result. All of you know it so well: Prices go up, deficiency payments go down. We need a guaranteed level of deficiency. And you are exactly right. Then the question becomes: At what level ought that to be guaranteed? And there is some strong disagreement on that question.

Number two, there are those of us who believe there ought to be a low-yield disaster payment. And that ought to be on top of the deficiency. The deficiency is not going to take care of the problem. Deficiency was meant to fill the gap between the target and the market price.

That is roughly what we are talking about with the deficiency payment, and that level ought to be guaranteed. But that does not anywhere near leave us whole. And we do not expect to be made whole. We know that is not going to happen, but we have to be somewhere close, somewhere in the ballpark. And the only way that is going to happen is if we also implement a low-yield disaster payment.

We are working on how that should be structured and formulated. And I do not for a minute think one should preclude the other. The deficiency payment is for one purpose. A low-yield disaster payment is for a completely different purpose, separate and apart. That is the debate that is going on behind the scenes right now.

Mr. ARNOLD. I did not mean to get off on another tangent.

Senator CONRAD. No, no. I appreciate very much the comment. Because every chance we get to share with others, share with our friends down at USDA, get the message back, it is important to take that opportunity. I have been on the phone this morning with the Director of ASCS, and we had a very good conversation. We agreed not to say anything about the results of that conversation until later today. But I appreciate the cooperation we have had.

Thank you again very much, and with that, we will declare this hearing closed.

[Whereupon, at 12:18 p.m., the subcommittee adjourned to reconvene, subject to the call of the Chair.]

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